REPORT TO THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

Selected Significant Audit Findings In The Civil Departments And Agencies Of The Government B-106190

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-106190

Dear Mr. Chairman:

This report contains selected significant audit findings developed during our audits and other examinations in the civil departments and agencies of the Government. These findings pertain for the most part to matters on which we believe administrative action, and in some cases legislative action, is required to achieve greater economy or efficiency in Government operations. Some findings and recommendations on which the departments and agencies have reported that corrective action was being taken also have been included because we have not yet observed the effectiveness of the reported action.

This compilation is made in response to the request that information of this type be made available to your Committee before the commencement of appropriation hearings at each session of the Congress. Concurrently with the release of this report, we are sending to the departments and agencies copies of the sections specifically applicable to them so that they may be in a position to answer any inquiries which may be made on these matters during the appropriation hearings.

A report on significant audit findings involving the Department of Defense and the three military departments is being submitted separately.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

The Honorable George H. Mahon
Chairman, Committee on Appropriations
House of Representatives

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DEPARTMENT OF AGRICULTURE

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DEPARTMENT OF AGRICULTURE

EXPORT MARKETING SERVICE

Opportunity to increase export sales of nonfat dry milk through a broader sales program

In June 1971 the General Accounting Office (GAO) reported to the Secretary of Agriculture that export sales of surplus nonfat dry milk could be increased beneficially.

The Export Marketing Service (EMS), in cooperation with the Agricultural Stabilization and Conservation Service (ASCS), conducts a program under which nonfat dry milk of the Commodity Credit Corporation (CCC) is sold for dollars to American plants overseas.

The basic procedures for the program (hereinafter referred to as the MP-23 program) are set forth in ASCS Announcement MP-23 which provides that CCC dairy products be offered for sale on the basis of competitive bids or announced prices.

In addition to determining the basic procedures and conditions of sale contained in this announcement, EMS has administratively determined that sales of nonfat dry milk under the MP-23 program be restricted to the highest bidder for each offering, regardless of the size of the bid. EMS officials informed us that sales under this program were being limited because nonfat dry milk was needed to meet the commitments of title I sales programs (20.7 million pounds in fiscal year 1971) and title II donations programs (314.4 million pounds in fiscal year 1971) under Public Law 480. As a result the bid invitation quantities under the MP-23 program are made available only after Public Law 480 commitments are satisfied.

There is some question as to whether this should be so. From a purely economic standpoint, there is no doubt that amounts sold under the MP-23 program are more beneficial than equivalent amounts donated free to foreign recipients under title II of Public Law 480. In addition, every pound donated abroad incurs transportation costs which must be borne by the U.S. taxpayer.

GAO's review showed that a significant increase in sales of nonfat dry milk under the MP-23 program would be possible if the Department were to modify its present restrictive procedures slightly to be able to (a) accept all reasonable bids and (b) reduce prices, as necessary, to meet foreign competition.

Under the restrictive bid procedure instituted in August 1970 through early April 1971, GAO found that bids for more than 4.5 million pounds of milk powder having a value approximating $550,000 were rejected. The quantities covered by the rejected bids averaged only nine tenths of 1 cent per pound below the award price.

EXPORT MARKETING SERVICE (continued)

GAO obtained information from a dairy company, which operated several plants overseas and which bought most of its nonfat-dry-milk requirements from offshore sources, to see if they would be interested in obtaining milk powder under the MP-23 program. The company advised GAO that they would be pleased to use the U.S. milk powder if it could be purchased at prices comparable to those charged by foreign suppliers. The company makes offshore purchases of about 21 million pounds of nonfat dry milk a year that might be made available under the MP-23 program. This would provide the Department of Agriculture with approximately $2.5 million of additional revenue a year from this company alone.

GAO suggested that a subsidiary benefit beyond the obvious economic benefit of giving priority to MP-23 program sales over foreign donations was that the donation programs might be more properly identified and appreciated. Heretofore many people believed that commodities donated were in such long supply that the recipient was doing the United States a favor in providing an outlet for its mounting surplus.

GAO recommended that the Department of Agriculture consider (1) giving a higher relative priority to MP-23 program sales in relation to Public Law 480, title II donations, (2) adopting a more flexible bid policy so that greater quantities might be sold under the program, (3) offering price reductions to provide American plants overseas with U.S. milk powder on a basis competitive with offshore procurement, and (4) informing American firms which operate dairy plants abroad of the availability of American nonfat dry milk at competitive prices and encouraging them to use American milk.

Comments dated August 16, 1971, from the Department of Agriculture were not responsive to the report recommendation. GAO planned to pursue these recommendations with appropriate agency officials. (B-114824, June 16, 1971.)

DEPARTMENT OF AGRICULTURE

FARMERS HOME ADMINISTRATION

Opportunity for assessment of fees for services not accruing to public at large

The Farmers Home Administration (FHA), Department of Agriculture, makes direct and insured rural housing loans to farmers and other rural residents to finance the purchase, construction, improvement, repair, or replacement of dwellings and essential farm service buildings. In processing a loan application, FHA performs for the applicant, without charge, a number of services, such as obtaining credit information, reviewing detailed plans and specifications for proposed construction, and making appraisals of loan security.

GAO was unable to determine from available records the actual cost of processing a rural housing loan because the agency's accounting system did not accumulate program costs on a routine basis. To obtain an estimate of the fees that might be involved, GAO applied the fees currently charged for processing applications for housing loans by the Federal Housing Administration to the projected loan volume of the Farmers Home Administration for fiscal year 1970--about 174,000 loans totaling about $1.3 billion. On this basis the assessment of fees for processing rural housing loans would result in revenues amounting to between $6.1 and $7.8 million annually.

Although it is a general policy of the Government that Federal agencies charge fees for services that provide recipients with special benefits beyond those which accrue to the public at large, FHA was not charging fees to applicants for rural housing loans because it believed that the Congress intended that no fees be charged and because the loans are made to low-income families who would be unable to pay a fee.

Charges for processing loan applications are generally assessed under other Federal housing loan programs--notably those of the Federal Housing Administration and the Veterans Administration. The majority of applicants for the Farmers Home Administration rural housing loans had incomes of from $6,000 to over $10,000, which were substantially above the poverty level income established by the Department of Labor for rural farm and nonfarm families. In many instances the incomes compared favorably with those of applicants for housing loans under a major housing program of the Federal Housing Administration.

FHA also performs services similar to those provided to applicants for rural housing loans when it processes applications for other types of loans that involve the acquisition of real property. The applicants for these loans are not required to pay fees for the services provided in processing loan applications. FHA projected that it would make about 23,000 such loans totaling about $624 million in fiscal year 1970. The overall Government policy may also be applicable to these other types of loans involving the acquisition of real property.

FARMERS HOME ADMINISTRATION (continued)

In August 1969 the Administrator, FHA, in response to GAO's recommendations, agreed to:

--Establish and assess fees which would recover, to the extent practicable, the costs of processing applications for rural housing loans.

--Reappraise FHA's approach to fees on other loan programs at the time it developed fee schedules for the rural housing loan program.

The Administrator stated that FHA would propose legislation which would allow it to retain the fees to offset part of the administrative costs of the housing programs.

GAO was advised in June 1971 that FHA had not implemented a program for charging fees for rural housing loans but that it had submitted through the Office of Management and Budget proposed legislation requesting authority to use whatever application fees that FHA might assess to offset its administrative costs. In addition to its continuing belief that FHA should establish and assess application fees, GAO believes that the fees should be deposited into the miscellaneous receipts of the Treasury, rather than be used to offset administrative costs, and that annual appropriations should be used to finance FHA's administrative costs. (B-114873, Jan. 23, 1970.)

DEPARTMENT OF AGRICULTURE

FOREST SERVICE

Funds appropriated for roads and trails could be used more effectively

At June 30, 1969, the Forest Service, Department of Agriculture, had planned for new construction or reconstruction of roads and trails in national forests and grasslands at an estimated cost of $10.4 billion. Although a portion of such work was to be financed by credits against timber sales prices and by contributions from cooperators, a large portion was to be financed by appropriated funds.

GAO's review showed that Forest Service procedures for allocating funds appropriated for roads and trails did not provide for adequate comparisons of the needs of the various national forests to ensure that funding priorities were given to the most-needed projects. The Federal Aid Highway Act of 1958 provides that such funds be allocated according to the relative needs of the various national forests taking into consideration (1) existing roads and trails, (2) value of timber or other resources to be served, (3) relative fire danger, and (4) comparative difficulties of construction.

GAO's review of the funding of projects in six forests in one Forest Service region showed that funds were used on projects that met limited needs while projects of greater needs were deferred. GAO did not question the need for the projects but expressed the view that an effective system for comparing the needs of all forests and for assigning priorities on the basis of their relative needs is essential to the effective use of available funds, because

--some projects fulfill significantly greater needs than others;

--according to testimony by the Chief of the Forest Service during fiscal year 1970 appropriation hearings, funds appropriated each year for Forest Service activities, including construction of roads and trails, are sufficient to finance only about 60 percent of annual needs; and

--the presence of roads and trails directly affects the ability of the Forest Service to manage forest resources.

The Forest Service agreed in principle with GAO's recommendation for establishing an effective system for assigning funding priorities on the basis of the relative needs of all national forests and stated that a study which has a 1975 target date for completion and implementation was being made. The Forest Service stated that interim reports on the study contained data which might affect the allocation of fiscal year 1972 funds. (B-125053, Nov. 20, 1970.)

DEPARTMENT OF AGRICULTURE

SOIL CONSERVATION SERVICE

Construction of watershed projects terminated or delayed because of land-rights problems

Many watershed-improvement and flood-prevention projects administered by the Soil Conservation Service, Department of Agriculture, have been terminated prior to completion, or their construction has been delayed unduly. GAO reported that the major cause of terminated and delayed projects, including 10 major projects which the Congress specifically authorized in 1944 but which were being delayed many years beyond original target dates, was the failure or delay of local sponsors to acquire "land rights"--i.e., the land, easements, or rights-of-way needed for the projects. The failures and delays resulted in:

1. Expenditure of Federal, State, and local funds on projects that may never be completed.

2. Significant increases in project costs due to general rises in construction price levels.

3. Long delays in realizing benefits from projects that may eventually be completed.

The Soil Conservation Service agreed that difficulty in acquiring land rights was a major deterrent to steady progress in completing watershed projects and it cited certain actions that it had taken or proposed to take to minimize the problem. GAO stated that these actions, which concerned primarily assessments of the prospective project sponsors' abilities and willingness to acquire land rights, by condemnation if necessary, should provide greater assurance that future projects will not be terminated prior to completion or delayed, because of land-rights problems, after planning has been completed and approved.

With respect to the 10 major projects which were specifically authorized by the Congress in 1944 but which were being delayed many years beyond original target dates, GAO suggested that the Congress, on the basis of the information in GAO's report and supplementary data which GAO stated should be furnished by the Soil Conservation Service, evaluate (1) the need for completing the projects, (2) the desired timeliness of completion, and (3) the need for specific legislative actions to facilitate their completion. (B-144269, July 13, 1971.)

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DEPARTMENT OF COMMERCE

NATIONAL BUREAU OF STANDARDS

Unauthorized retention in Working Capital Fund of money accumulated for earned leave of transferred employees

The General Accounting Office (GAO) reported that the National Bureau of Standards had augmented its Working Capital Fund without authority of law by retaining in the fund $432,589 that had been accumulated to pay the accrued annual leave of employees who were transferred to another agency. The Bureau treated the reduction in the liability for accrued annual leave of these transferred employees as an increase in donated capital. Of the reduction, $432,589 represented the portion of accrued annual leave recovered by charges to customers and retained in the fund as a result of that treatment.

Inasmuch as the Bureau did not agree to pay the $432,589 into the general fund of the Treasury as GAO had recommended, GAO reported the matter to the Congress for its consideration.

GAO recommended also that the Department of Commerce's financial systems staff establish specific guidelines to be followed when accounting for assets and liabilities involved in significant transfers of functions between agencies, as occurred in this case. Subsequently the Department began to establish such guidelines. (B-149858, Mar. 10, 1971.)

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DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

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DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

HEALTH SERVICES AND MENTAL HEALTH ADMINISTRATION

Improvements needed in management of Community Mental Health Centers Program

Under the Community Mental Health Centers Program authorized by the Mental Retardation Facilities and Community Mental Health Centers Construction Act of 1963, each center is required to provide inpatient, outpatient, emergency, partial hospitalization (such as day care), consultation, and educational services.

The General Accounting Office (GAO) reviewed the program, which is administered by the National Institute of Mental Health, a constituent bureau of the Health Services and Mental Health Administration, and reported to the Congress on July 8, 1971, on the following deficiencies which GAO had observed in the administration of the program.

Number of centers needed

The Institute did not have a national goal for the number of centers needed, and some States planned centers to serve areas with larger populations than specified by regulations. The Department of Health, Education, and Welfare (HEW) concurred with GAO's recommendation that a national goal for the number of centers to be built and supported by Federal funds and a time-phased program for meeting the goal be established on the basis of updated State plans.

Size of construction grants

The Institute had not issued adequate guidelines for determining its share of the construction costs when a center is built as part of a medical facility (such as a hospital). GAO found that grants for two centers were about $168,000 larger than warranted because they were based on construction costs which had not been allocated on the basis of sound procedures.

Although a formula was developed in 1968 for allocating construction costs of service areas used jointly by a center and other components of a medical facility, GAO believed that the formula, which was based on average-use rates for a number of common service areas, did not take into sufficient account the wide variety of conditions at different centers.

Size of inpatient facilities

The Institute had not established criteria for determining whether a center's inpatient unit would serve its area adequately, and information furnished by grant applicants was insufficient to enable the Institute to make such determinations. Although HEW said that it would not be prudent to establish criteria for the size of inpatient facilities because many factors were involved and flexibility was important, GAO believed that the variety of factors involved and the desire for flexibility emphasized the need for such criteria and for adequate justifications by grant applicants. GAO

therefore recommended that the Institute establish such criteria and that applicants be required to adequately justify the size of inpatient facilities they propose.

Grants for staffing of centers

Federal grants are provided for a major share of the staffing costs of a center, but a center must obtain sufficient additional funds to pay the balance of staffing costs and all other operating expenses. The Federal grant assistance is provided on a declining basis for a specified period of years, and the center is expected to operate thereafter without Federal aid. GAO believed that realistic appraisals were needed of the funds available to applicants from non-Federal sources. GAO believed also that a center's financial status should be reviewed by the Institute periodically after a grant was awarded. The Institute reported that it proposed to take actions to strengthen its review procedures.

Use of staffing grant funds

Several centers used staffing grant funds for unauthorized or questionable purposes. For example:

--Three centers used about $278,000 for purposes, such as building renovation and operating expenses, not authorized in the law.

--One center used about $265,000 for staffing costs in excess of the maximum Federal cost-sharing rate specified in the law.

--Two centers used about $89,000 for expenses which should have been paid from non-Federal funds.

The Institute was not aware of these unauthorized or questionable expenditures until GAO brought them to the attention of its program officials. The Institute reported that new procedures were being developed to tighten the review of the operations of staffing grant recipients.

As of June 1971 the Institute had obtained agreements with grantees for the repayment of about $606,000 of grant funds which had been used for unauthorized purposes. (B-164031(2), July 8, 1971.)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

NATIONAL INSTITUTES OF HEALTH

Information services provided without charge

The National Library of Medicine provides (with a few exceptions) a wide range of biomedical information services to qualified health professionals without charging fees for the services. The cost of providing these services was estimated to be $571,000 annually.

The Public Health Service Act authorizes the library to provide its services either on a charge basis or without charge as a public service. The library's policy of providing its services without charge as a public service has been approved by its board of regents.

In view of the congressional interest in charges by Federal agencies for specialized services furnished by them, GAO reported this matter to the Congress on November 30, 1970, in the belief that the Congress might wish to consider the library's determination that all of its principal services were public services for which no fees were to be charged. (B-164031(2), Nov. 30, 1970.)

Delays in funding and approving contracts and grants for cancer research

The National Cancer Institute (NCI) conducts cancer research at its own laboratories and clinics and supports research through contracts and grants-in-aid. Contracts and grants for cancer research projects, usually 3 to 5 years in length, are funded annually.

In a March 1971 report to the Senate Committee on Labor and Public Welfare, GAO pointed out that the system of funding and administering NCI research had resulted in significant delays in the approval and funding of contracts and grants. The NCI funding request is delayed each year until the entire HEW appropriation bill is enacted. During each of the past 6 fiscal years, HEW appropriations were approved from 2 to 8 months after the beginning of the fiscal year in which the funds were to be used.

Although ongoing research grants and contracts had been funded under joint congressional resolutions making continuing appropriations for the fiscal year, pending approval of appropriations for that year, NCI could not plan effectively for research, particularly new programs and projects, until it knew how much money had been appropriated.

GAO believed that advance funding would enable NCI to make awards on the basis of the amount appropriated for the year covered by the advance funding and would facilitate more timely financing of new programs and projects. Therefore GAO expressed the belief that the Congress might wish to consider the enactment of legislation authorizing, in the case of NCI, the making of appropriations to be available for the fiscal year following the usual budget year.

NATIONAL INSTITUTES OF HEALTH (continued)

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GAO also reported that the research grants awarded during 1970 had required 8 months, on the average, for review and approval. A significant part of the time for processing research grants had elapsed because the study sections of the National Institutes of Health, which reviewed grant applications for scientific merit, and the National Advisory Cancer Council, which recommended approval of grant applications, each met only three times a year. About 45 percent of the 1,182 grants awarded by NCI in fiscal year 1970 were for relatively small amounts--less than $30,000 each.

GAO recommended that the Secretary of HEW authorize the NCI program managers to award grants up to a specified dollar limit without review by the National Institutes of Health study sections but with the review and recommendations of the National Advisory Cancer Council. GAO was informed by NCI in June 1971 that this matter was still under consideration. (B-164031(2), Mar. 5, 1971.)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

OFFICE OF EDUCATION

Need to improve policies and procedures for approving grants under Emergency School Assistance Program

In response to a request from the Chairman, Senate Select Committee on Equal Educational Opportunity, GAO reviewed HEW's policies and procedures for approving grants of Federal funds to school districts to defray the costs of meeting special problems arising from school desegregation. To meet the emergency needs of school districts that were desegregating, the Congress appropriated $75 million on August 18, 1970, and thereby established the Emergency School Assistance Program.

GAO reported that in many cases school districts had not submitted with their applications, nor had HEW regional offices obtained, sufficient information to enable HEW to determine whether the grants had been made in accordance with program regulations or whether the grants were in line with the purpose of the program.

Most of the applications did not contain comprehensive statements of the problems faced in achieving and maintaining desegregated school systems, nor did they contain adequate descriptions of the proposed activities designed to comprehensively and effectively meet such problems. Particularly, there was a lack of documentation in the regional files as to how the proposed activities would meet the special needs of the children incident to the elimination of racial segregation and discrimination in the schools.

The applications in many cases did not provide HEW with adequate means for determining whether project approvals had been based upon consideration of such required factors as the applicants' needs for assistance, the relative potential of the projects, or the extent to which the projects had dealt with the problems faced by the school districts in desegregating their schools.

GAO concluded that the weaknesses in the HEW procedures and practices were due, to a large degree, to HEW's policy of emphasizing the emergency nature of the program and to its desire for expeditious funding at the expense of more thorough reviews and evaluations of school districts' applications, particularly as to the adequacy of described program activities in satisfying program requirements.

GAO suggested that HEW undertake a strong monitoring program to help ensure that grant funds already made available to school districts are used for the purposes intended. GAO suggested also that, in the event that additional funding is authorized, HEW procedures be strengthened by (1) providing sufficient time for program officials to make thorough reviews and evaluations of applications, (2) requiring that all information relied on in approving an application be made a matter of record, and (3) providing for an effective monitoring system. (B-164031(1), Mar. 5, 1971.)

OFFICE OF EDUCATION (continued)

Improved administration needed in New Jersey for Federal program of aid to educationally deprived children

Title I of the Elementary and Secondary Education Act of 1965, administered by the Office of Education, provides financial assistance to local educational agencies to meet the special educational needs of educationally deprived children residing in areas having high concentrations of children from low-income families. In a report dated April 7, 1971, GAO expressed the belief that a substantial part of the title I program in Camden, New Jersey, funded at about $1 million annually, had provided general aid to the public and private school systems there rather than aid to educationally deprived children as prescribed in the act.

GAO recommended that HEW review those projects in Camden that appeared to be inconsistent with the objectives of the act and effect recoveries of, or make adjustments in, title I funds where warranted.

Also GAO stated that HEW should emphasize to the New Jersey State educational agency the need to

--ensure that local educational agencies select and document project areas in accordance with program criteria and

--concentrate aid in areas designated as having high concentrations of children from low-income families.

GAO stated also that HEW should emphasize to all State educational agencies the need for

--adequate reviews of project applications,

--systematic State programs of reviewing title I activities at the local agencies, and

--State utilization of local agency evaluation reports to improve program effectiveness.

The Assistant Secretary, Comptroller, HEW, advised GAO that the Office of Education, in conjunction with State officials, would conduct a thorough review in Camden and make prompt recoveries or appropriate adjustments of all amounts found to have been expended for purposes, or in a manner, inconsistent with title I objectives or regulations. GAO was informed in August 1971 that a task force had been established to study its findings and determine the amount of recoveries to be effected.

The Assistant Secretary advised GAO also that its other recommendations would be implemented promptly. He stated that the New Jersey Commissioner of Education would be urged to (1) strengthen the State educational agency's procedures for project review and approval for program monitoring, (2) adopt

effective measures to ensure identification of the special needs of educationally deprived children, and (3) limit title I project design and approval to projects offering reasonable promise of success in meeting such needs.

By letter dated May 6, 1971, addressed to all chief State school officers, the Office of Education summarized the deficiencies in the program identified by GAO in its review in New Jersey and in prior reviews in Ohio and West Virginia and requested the officers to take steps to determine whether any of the deficiencies existed in their States and to initiate remedial action where necessary. (B-164031(1), Apr. 7, 1971.)

Opportunity for increased effectiveness of Teacher Corps program

In five reviews made to assess the effectiveness of the Teacher Corps program in attaining its legislative objectives, GAO noted that two programs in California and programs in south Florida, in western North Carolina, and at the Navajo and Hopi Indian Reservations in Arizona and New Mexico had strengthened educational opportunities for children of low-income families. Corps members assigned to these programs provided individualized instruction, introduced new teaching methods, and participated in education-related community activities. About one half of the interns who completed these programs became teachers in schools serving poor areas. Also some degree of success was achieved in accomplishing the Teacher Corps' second legislative objective--broadening teacher preparation programs.

The program could have been more effective if local educational agencies had continued successful innovative methods after corps members completed their assignments and if the participating universities had established formal procedures for evaluating and incorporating useful ideas, experiments, and techniques into their teacher preparation programs. Also State departments of education needed to take a more active role in disseminating information about successful features of the Teacher Corps programs. HEW concurred with GAO's recommendations and described actions planned to put them into effect. (B-164031(1), Apr. 16, May 13, May 20, July 9, and Aug. 25, 1971.)

Unauthorized use of Teacher Corps members to supplant local teachers

Beginning in 1969, Teacher Corps members assigned to the western North Carolina program occupied regular State or locally allotted teaching positions. According to program officials, the practice resulted in supplanting regular teachers who otherwise would have been hired by the local educational agencies. The effect of the arrangement was that the Teacher Corps members' salaries and related costs were paid, in part, from State and local funds. State and local funding of the western North Carolina program increased from about 10 percent to about 70 percent and thus decreased the amount of Federal funds needed to operate the program. GAO

OFFICE OF EDUCATION (continued)

expressed the belief that the arrangement was not authorized since section 517 of the Higher Education Act of 1965 provides that no member of the Teacher Corps be furnished to any local educational agency if that member is to be used to replace any teacher who is, or otherwise would be, employed by such agency.

The Office of Education program specialist in Washington, D.C., stated that the arrangement was a pilot program to provide for increased State and local participation in the cost of the Teacher Corps program. It was contemplated that such action would tend to increase the likelihood that successful program features would be carried on after Federal funding ceased.

Since the funding procedure was being implemented at other locations and might provide local educational agencies with the impetus to continue successful features of a Teacher Corps program after Federal funding ceased, GAO suggested that the Congress might wish to consider whether the enabling legislation should be amended to authorize such arrangements. (B-164031(1), May 20, 1971.)

Need for improving administration of study and evaluation contracts

The Office of Education has entered into contracts for studies and evaluations of Federal educational programs to determine whether these programs are meeting their objectives. The information obtained is used in developing, designing, and managing the programs and in informing educators about the programs. The studies are performed by public or private agencies, organizations, groups, or persons. GAO selected 24 contracts for review--14 had been completed at a cost of $2.2 million, and 10 were still in process and were estimated to cost $9.1 million.

In an August 1971 report to the Congress, GAO pointed out that Office of Education officials considered the information produced by five of the completed studies to be of limited use. The cost of the five studies ($935,000) represented about 42 percent of the total cost of the 14 completed contracts. Information available at the Office of Education indicated that two of the 10 ongoing studies might also fall short of meeting their objectives. The two studies were estimated to cost $7.6 million, or about 84 percent of the total estimated cost of the ongoing contracts.

Weaknesses in the administration of the contracts contributed to the failure of the studies to produce the desired results. In a number of instances, the contractors' descriptions of work to be performed were not specific enough to ensure that the work performed would provide the Office of Education with useful information. Written agreements were not obtained on significant changes in the work. Also contracts were not monitored closely enough to keep responsible Office of Education officials informed of contractors' progress. Under such circumstances it is difficult to hold the contractors responsible for poor performance.

OFFICE OF EDUCATION (continued)

If the Office of Education is to receive the benefits intended from study and evaluation contracts, improvements are needed in the administration of these contracts. At the close of GAO's review, HEW was preparing a guide for its project monitors that was to deal with many of the problem areas discussed in the report. GAO made several recommendations for use in preparing the guide and also recommended that the Secretary of HEW provide for the establishment of an orientation course to acquaint agency program employees involved in the administration of study and evaluation contracts with the requirements of the Federal Procurement Regulations and agency instructions.

By letter dated June 1, 1971, the Assistant Secretary, Comptroller, of HEW concurred with GAO's recommendations and described actions taken or planned to implement the specific recommendations or to otherwise improve contract management in the Office of Education. (B-164031(1), Aug. 16, 1971.)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL AND REHABILITATION SERVICE

Improvement needed in controls over Medicaid drug program

Under Medicaid, HEW shares with the States the costs of providing medical care to persons unable to pay. During fiscal year 1969 about $307 million was expended for drugs under the Medicaid program, about $14 million of which was spent in Ohio.

On the basis of a review of expenditures for drugs under the Medicaid program in Ohio, GAO reported to the Congress in November 1970 that:

1. A substantial number of welfare recipients had been ineligible for Medicaid services, including drugs.

2. Certain drugs purchased under the State's Medicaid program had not been reasonably priced.

3. HEW, in its studies of drug efficacy, needed to give priority to lower cost, frequently used drugs which had been identified by the HEW Task Force on Prescription Drugs as offering potential for considerable savings.

4. Ohio's controls over drugs under its Medicaid program were inadequate for the State or HEW to determine whether (a) drugs obtained by nursing homes had been administered to welfare patients and had been effective, (b) drugs dispensed and billed by pharmacies actually had been received by welfare recipients, and (c) drugs provided had been needed by welfare recipients.

GAO recommended that the Secretary of HEW provide assistance to Ohio and other States in revising their drug payment policies to conform to HEW policy; give priority in the conduct of HEW's drug-efficacy studies to those drugs identified by the HEW task force as having considerable potential for savings and furnish physicians with information on the results of the studies; and issue guidelines for utilization reviews of drugs, monitor the implementation of these guidelines, and give assistance to Ohio and other States as needed.

HEW stated that guidelines for payments of reasonable charges for prescribed drugs and for a review of their utilization would be issued and that the drug-efficacy study was in progress. HEW stated also that it planned to institute a closer monitoring and liaison program in each regional office and to make more frequent visits and detailed reviews of State Medicaid operations. (B-164031(3), Nov. 23, 1970.)

Problems in providing proper care to Medicaid and Medicare nursing-home patients

In May 1971 GAO reported to the Congress that many skilled nursing homes may not have provided proper care and treatment for their Medicaid and

Medicare patients. GAO reported also that many patients in these nursing homes may not have needed skilled care and should have been provided with less intensive--and less costly--care.

GAO visited 90 nursing homes (30 each in the States of Michigan, New York, and Oklahoma) having 5,581 Medicaid patients (33 of these homes served Medicare patients) and found that many of them were not adhering to Federal requirements for participation in the Medicaid program--and in some cases the Medicare program. GAO noted such deficiencies as (1) patients not receiving required attention by physicians, (2) patients not receiving required nursing attention, and (3) nursing homes not having complete fire-protection programs. The nonadherence to requirements resulted primarily from weaknesses in State procedures for certifying eligibility of nursing homes and from ineffective State and HEW enforcement of Federal requirements which included State licensing requirements.

GAO noted that patients had been placed in skilled nursing homes even though their needs were for less intensive and less costly care which could have been provided in other facilities; however, alternative facilities in which less intensive levels of care could be provided were limited. GAO believed that the primary cause of this problem was that HEW had not developed criteria for measuring the need for skilled care under the Medicaid program, although the Social Security Administration had developed such criteria under the Medicare program.

GAO recommended that the Secretary of HEW:

--Instruct HEW's Social and Rehabilitation Service (SRS) and Audit Agency to increase their monitoring of States' activities to ensure that they are (1) adhering to HEW's requirements for participation in the Medicaid program as nursing homes, (2) following existing HEW Medicaid regulations relating to admission of patients to skilled nursing homes, and (3) periodically determining whether patients admitted to skilled nursing homes are still in need of skilled care.

--Issue criteria setting forth the medical and nursing care required for patients to be classified as being in need of skilled-nursing-home care.

HEW informed GAO that SRS had implemented a new monitoring and liaison program in each regional office that would ensure closer relationship with State agencies and would require more frequent visits by regional officials and detailed reviews of State Medicaid operations. HEW also informed GAO that SRS planned to issue guidelines to assist the States in evaluating patients' needs for skilled-nursing care and services under the Medicaid program and that, where applicable, these guidelines would embrace areas of common interest, as outlined in the criteria developed for the Medicare program. (B-164031(3), May 28, 1971.)

SOCIAL AND REHABILITATION SERVICE (continued)

Examination into certain claimed practices relating to nursing-home operations in Baltimore, Maryland, area

At the request of the Chairman, Subcommittee on Long-Term Care, Senate Special Committee on Aging, GAO obtained information relating to certain questions which had been raised during the Subcommittee's hearings on a salmonella outbreak in nursing homes in the Baltimore, Maryland, area. GAO visited four nursing homes in the Baltimore area that were participating in either the Medicaid or Medicare programs administered by HEW. GAO reported that:

1. In Maryland it was not an uncommon practice for physicians to sign death certificates without having viewed the bodies of patients who died in nursing homes. The practice was not illegal in Maryland, and it was not considered unethical by the State medical society.

2. On three occasions physicians had been paid under the Medicare and Medicaid programs for signing death certificates, although the fee was not reimbursable under either program.

3. The records of 322 Medicaid and Medicare patients who died during fiscal year 1970 revealed 39 instances in which payments had been made under the Medicaid program for nursing-home care for periods after the death of the patients. In 36 of the 39 instances, however, the overpayments had been detected by State employees and adjustments had been made to correct the overpayments prior to GAO's bringing them to the attention of State officials.

4. In some cases payments had been made to nursing homes for care on the same days under both the Medicaid and Medicare programs.

5. Medicaid audits required by the State had not been made at three of the four nursing homes GAO visited.

GAO's report, a copy of which was furnished to the Secretary of HEW, pointed out the need for the following actions by HEW.

1. HEW's Social Security Administration and/or SRS should assist paying agents under the Medicare and Medicaid programs in

--making a study of the feasibility of establishing procedures to ensure that payments are not made to physicians for signing death certificates, which is an unallowable cost, and

--establishing controls to ensure that duplicate payments for the same services are not made under the programs.

SOCIAL AND REHABILITATION SERVICE (continued)

2. SRS should improve its monitoring of the State's administration of the Medicaid program to ensure that required audits of nursing-home costs are made.

HEW advised GAO that it planned to issue a letter to State Medicaid agencies pointing out that payments to physicians for signing death certificates was an unallowable cost under the program. With respect to duplicate payments under the Medicaid and Medicare programs, HEW stated that a newly established management information system for improving the administration of the Medicaid program should help to ensure that duplicate payments are not made. With respect to improved monitoring by SRS of State Medicaid programs, HEW said that monitoring activities were expected to increase in the future. (B-164031(3), Dec. 4, 1970.)

Need for controls over medically needy recipients' share of program costs under Medicaid

GAO reported to the Congress in July 1971 that the Medicaid program had paid for medical care and services that should have been paid for by medically needy recipients--persons who did not have financial resources sufficient to meet the costs of necessary medical care but who did not qualify for public assistance. Medically needy persons often must pay shares of the costs of medical care provided to them.

GAO estimated that, for three county hospitals in Los Angeles, California, such payments may have amounted to $1.6 million during 1969; in Boston, Massachusetts, for the 7-month period ended October 1969, such payments may have amounted to $61,500. In Cook County, Illinois, Medicaid payments totaling about $17,700 for eight hospital cases should have been paid by the medically needy recipients. In Los Angeles County during 1969, claims of about $900,000 for physician services, drugs, and other medical services should have been paid for by such recipients.

GAO reported also that HEW had paid State claims for medically needy persons in California and seven other States, which had used income levels above the prescribed Federal maximum in computing recipients' shares of cost requirements, without determining whether the States had procedures to limit such claims to amounts based on the Federal maximum.

GAO reported further that the quality control system prescribed by HEW, which provided for a systematic and continuous control by State agencies over the correctness of decisions reached by local welfare agencies, had been ineffective in California and Massachusetts and that the effectiveness of the quality control system in Illinois had been reduced because the State had reviewed less than the minimum number of cases specified by HEW.

SOCIAL AND REHABILITATION SERVICE (continued)

GAO recommended that HEW:

--Evaluate the control systems in the 27 States which included medically needy persons under their Medicaid programs, to identify those procedures most effective for ensuring that recipients pay their shares of the costs of both institutional and noninstitutional services.

--After identifying these procedures, either disseminate the information to the States with the recommendation that the procedures be followed or develop a model system for use by the States.

--Consider the practicability of controlling the administration of the recipients' shares of costs in cases in which the amounts are small or the required controls are burdensome.

--Consider alternative approaches to cost sharing if it is determined that the administration of the present share-of-cost aspect of the program cannot be made practicable.

--Seek appropriate adjustments for improper payments charged to Medicaid because of failure of those county-operated hospitals in California to verify eligibility or to deduct the recipients' shares of costs from Medicaid claims.

--Provide for follow-up actions to be taken by HEW regional office officials to ensure compliance with the statutory income limitations whenever the States' approved income levels are in excess of the Federal limitation.

--Review the action taken by California to improve its quality control system and monitor the progress of Massachusetts and Illinois in meeting their quality control objectives.

HEW informed GAO that it was in general agreement with GAO's conclusions and recommendations and outlined the corrective actions it had taken or was taking on each recommendation. HEW stated that it was following up on corrective actions being taken by the States. (B-164031(3), July 28, 1971.)

SOCIAL AND REHABILITATION SERVICE (continued)

Need to control excessive use of physician services provided under Medicaid program

In a February 1971 report, GAO informed the Congress that HEW had not provided States with guidelines for evaluating the need, quality, or timeliness of medical services provided under the Medicaid program. In a review of the program in Kentucky, GAO noted that HEW had not adequately supervised or monitored the State's evaluation of medical services provided. GAO reported that there was a need for more effective action to curb misuses of physician services.

GAO reviewed the cases of 100 Medicaid recipients who had received large quantities of drugs and interviewed the attending physicians. GAO found that 84 of these recipients had received an excessive number of prescriptions and had overused physician services. Of the 84 recipients, 62 averaged five visits a month to different physicians. During a 14-month period one recipient obtained services 170 times from six different physicians and sometimes visited two physicians on the same day. During this period Medicaid paid for 50 prescriptions for this recipient.

GAO concluded that an HEW regulation--adopted by Kentucky--which allowed providers of services to submit bills for payment under Medicaid up to 2 years after the services were provided represented an obstacle to examining and evaluating the number and/or frequency of physician visits. It appeared that Federal and State staffing limitations had contributed to the problems and that better monitoring of Kentucky's activities by HEW was needed.

GAO recommended that HEW provide the States with guidelines for effectively reviewing the use of physician services and reduce the 2-year period during which providers may bill for services.

HEW informed GAO that (1) guidelines for evaluating the use of medical services would be issued, (2) the Medicaid program staff had been increased, (3) the monitoring of State evaluations of physician services would be increased, (4) a program of closer monitoring and liaison with each individual State agency would be instituted, (5) revised regulations would be issued to reduce the 2-year limitation period for submission of bills, and (6) Kentucky already had put a revised limitation into effect.

HEW subsequently advised GAO that, before revising its regulations to reduce the time limitation for submission of bills for physician services, a survey would be made in all States to obtain information about the length of time needed to process claims for all medical care and services. (B-164031(3), Feb. 3, 1971.)

SOCIAL AND REHABILITATION SERVICE (continued)

Improvement needed in method of determining eligibility for aid to families with dependent children

At the request of the Chairman, Senate Committee on Finance, GAO made a comparison of the relative effects of the simplified and traditional methods for determining eligibility for aid to families with dependent children (AFDC).

Under the simplified method, the States are permitted to accept persons as eligible for public assistance on the basis of information furnished by the applicants without verifying their statements. Under the traditional method, eligibility decisions are made only after information furnished by applicants is independently verified by welfare agency workers.

In July 1971 GAO reported to the Committee that case loads had increased significantly at all welfare centers it had visited and that there had not been much difference between the extent of verification of eligibility information under the two methods, because verification of factors having a bearing on applicants' eligibility was not as extensive under the traditional method as commonly thought.

GAO noted that AFDC case loads had increased disproportionately when the welfare centers first began using the simplified method and when they no longer required the same welfare-agency workers to determine applicants' eligibility and also provide social services. Data available concerning welfare case closings had not indicated any particular trend that could be attributed to the use of the different eligibility methods. Also ineligibility appeared to have been a problem, regardless of the method used to determine eligibility.

GAO suggested that, to help maintain the integrity of the AFDC program, the eligibility method provide for:

--Determining the eligibility of applicants for assistance on the basis of information obtained through face-to-face interviews and verification of certain key eligibility factors.

--Using, to the maximum extent possible, experienced persons and, before assigning new persons to do eligibility work, training them in program policies, procedures, and interviewing and investigating techniques.

--Prescribing a quality control system designed to alert management when instances of ineligibility and incorrect entitlement rates reached a point where special corrective action was called for.

Copies of GAO's report were furnished to HEW. An HEW official stated that HEW generally agreed with GAO's conclusions but that he had reservations as to whether face-to-face interviews were necessary in all cases. (B-164031(3), July 14, 1971.)

SOCIAL AND REHABILITATION SERVICE (continued)

Need to ensure compliance with payment policies for multiple-patient visits by providers of medical services

In February 1971 GAO reported to the Congress that, under the Medicare and Medicaid programs in California during 1969, providers of medical services had been overpaid by the State for visits made to more than one patient on the same day in the same nursing home. GAO estimated that such overpayments totaled $426,400, of which the Federal share was $343,500. The overpayments occurred because (1) physicians and providers of X-ray services did not know the correct billing procedures for multiple-patient visits, (2) the claims-processing and payment system used by the fiscal agent (private organization under contract with the State) did not contain adequate controls for identifying multiple-patient visits, and (3) physician payment profiles (histories of past billings used to determine the reasonableness of physicians' charges) for multiple-patient visits had not been developed properly.

Regulations of HEW did not provide to the Medicare and Medicaid paying agents guidelines concerning payment policies for multiple-patient visits. HEW had made a nationwide study of the diversity of payment policies and the feasibility of prescribing uniform guidelines for use under the Medicare program, but it had not made a similar study for the Medicaid program.

GAO recommended that the Secretary of HEW

--provide measures for determining compliance with payment policies for multiple-patient visits,

--make a study similar to the one for Medicare to determine the diversity of payment policies for multiple-patient visits under Medicaid, and

--provide ways to measure the implementation of guidelines developed as a result of the studies.

HEW informed GAO that (1) uniform guidelines would be issued to all Medicare carriers with respect to identifying multiple-patient visits and ensuring proper reimbursement, (2) a study would be made of the diversity of existing payment policies under Medicaid preparatory to the issuance of guidelines, and (3) HEW regional offices would be given responsibility for obtaining compliance with policies under the Medicaid program. (B-164031(3), Feb. 2, 1971.)

Need for improvement in administration of Medicaid program by fiscal agents

Under the Medicaid program most States contract with private organizations--referred to as fiscal agents--for assistance in administering their programs.

SOCIAL AND REHABILITATION SERVICE (continued)

In October 1970 GAO reported to the Congress that the States of Kansas and Iowa had not established controls adequate for ensuring that payments were made only for medically necessary services and that neither State had provided adequate supervision or review of the administration of the programs by fiscal agents. As a result, there were indications of overuse of program services and neither State ascertained the reasonableness of the amounts paid as customary charges for the services provided.

In addition, GAO observed opportunities for improvements in administrative practices relating to (1) identification of claims for services that might be covered by recipients' private health insurance policies, (2) prevention of duplicate payments and of payments for medical services provided after termination of recipients' eligibility, (3) the filing of paid claims, and (4) determination of reimbursable costs to participating hospitals.

GAO recommended that the Secretary of HEW provide the States with guidelines for reviewing and controlling the use of Medicaid services, including the accumulation and use of data on charges made by individual practitioners in determining the reasonableness of customary charges. GAO recommended also that States be required to provide the fiscal agents processing Medicaid claims with the identification of recipients who have private health insurance coverage and that HEW define the State agencies' responsibilities relative to fiscal agents' activities.

HEW informed GAO that utilization review guidelines would be issued but expressed the view that its existing regulations provided sufficient guidance to State agencies with respect to (1) the accumulation and use of historical charge data, including charges to private insurance programs, and (2) the consideration to be given to private medical insurance coverage in computing amounts to be paid by Medicaid. HEW believed that the weaknesses noted in these areas had been caused by inadequate implementation by the State agencies of existing regulations and stated that it planned to inaugurate a closer monitoring and liaison program with the individual State agencies. HEW said, however, that it would continue to evaluate its guidelines in the light of information obtained through its monitoring of State programs. (B-164031(3), Oct. 20, 1970.)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL SECURITY ADMINISTRATION

Lengthy delays in settling costs of health services furnished under Medicare

Federal payments to institutions, such as hospitals, for health services provided to Medicare patients usually are made through fiscal intermediaries acting under contracts with HEW, which are administered by the Social Security Administration (SSA). For fiscal years 1967 through 1969, institutions were paid for the costs of furnishing services to Medicare patients about $11 billion, of which about $10 billion was paid to hospitals. The payments to institutions are made initially on an estimated basis but are subject to adjustments at the end of the institutions' Medicare reporting periods after the intermediaries have determined the institutions' actual and reasonable Medicare-related costs.

GAO reported in June 1971 that, because of lengthy delays in completing the settlement process, an appropriate final accounting or timely review by the intermediaries and the Federal Government had not been made of billions of dollars of Medicare payments. At September 30, 1970, over 3 years after the end of the reporting periods for the first year under Medicare, final settlement for the first year had been made with only 68 percent of the 2,245 hospitals included in GAO's review. At that date, over 2 years after the end of the reporting periods for the second year under Medicare, final settlement for the second year had been made with only 38 percent of these hospitals.

There were delays in every step of the settlement process--from the preparation of cost reports by hospitals through the audit of cost reports by intermediaries to the final settlement or agreement.

GAO concluded that some of the delays were attributable to SSA's administration of the program.

--There were problems with certain SSA-generated financial and statistical data (reimbursement report) intended to assist hospitals in preparing their Medicare cost reports and to guide intermediaries in making audits and final settlements.

--Some intermediaries delayed making final settlements with hospitals because a questionable method of apportioning hospital costs between Medicare and non-Medicare patients, which was authorized by HEW, resulted in payments that included private room costs, which were not covered under the program, and certain delivery room costs, which were not applicable to Medicare patients. GAO estimated that elimination of the questionable method of apportionment would reduce Medicare payments to hospitals by $100 million to $200 million annually.

Other causes of delays included (1) inadequacies in hospital accounting systems and insufficient numbers of hospital employees capable of preparing the reports, (2) the lack of sufficient intermediary staff to make

initial cost report reviews and field audits--particularly at times of peak work loads--(3) difficulties in obtaining SSA approval of audit subcontracts, and (4) disagreement between the intermediaries and the hospitals as to the proper amounts of Medicare-related costs.

GAO's recommendations for alleviating the unsatisfactory conditions included having SSA:

--Establish a definite timetable for the development of useful and timely reimbursement reports for use by hospitals and intermediaries or consider other alternatives, such as authorizing intermediaries to prepare the reports.

--Discontinue, or modify the use of, the questionable method of apportioning hospital costs between Medicare and non-Medicare patients.

--Encourage hospitals to adopt different cost-reporting periods to provide a more even distribution of intermediaries' work loads.

--Take steps to provide assistance to those intermediaries that had the most serious backlog of audited cost reports for which settlements had not been made.

HEW agreed in part with some of GAO's recommendations but did not agree with, or suggested alternatives to, others. Of particular significance was HEW's decision to discontinue the use of the questionable method of apportioning hospital costs for larger institutions. HEW estimated that this action would reduce Medicare costs by $100 million in fiscal year 1972. (B-164031(4), June 23, 1971.)

Improved controls needed over extent of care provided by hospitals and other facilities under Medicare

To control the extent and cost of care provided under Medicare, the law requires that (1) each hospital and extended-care facility establish a utilization review committee, consisting of at least two physicians, to review the medical necessity of admissions, duration of stays, and professional services rendered and (2) for a patient's stay in a hospital or extended-care facility to qualify for Medicare coverage, his attending physician certify, and periodically recertify, that the stay is medically necessary.

GAO reported to the Congress in July 1971 that utilization review committees had helped, to some extent, to reduce unnecessary costs but that the committees had not obtained from SSA and its fiscal intermediaries a full understanding of the limitations on the type of care which could be provided and paid for under the program. In reviewing records for 1,735 Medicare patients, which had been available for examination by the review

committees, consulting physicians, as well as GAO, questioned whether care provided to 465 of the patients should have been paid for by Medicare.

GAO found other important problems in the manner in which hospitals and extended-care facilities had implemented the requirements for utilization review and physicians' certifications and in the controls being exercised over these functions by SSA, fiscal intermediaries, and State agencies.

GAO's recommendations for curbing unnecessary use of hospital and extended-care-facility services under the Medicare program included having SSA:

--Define more clearly the role of the utilization review committees.

--Establish more appropriate criteria for determining when cases involving stays in hospitals and extended-care facilities should be reviewed by review committees.

--Define the responsibilities of State agencies and intermediaries more clearly with respect to (1) monitoring follow-through actions taken on questions raised by review committees and (2) ensuring compliance with the legislative requirements regarding review committees' activities and physicians' certifications and recertifications of the necessity for continued care.

--Provide for increased attention to whether State agencies are doing an adequate job of determining the degree of compliance by hospitals and extended-care facilities with their approved review plans.

HEW agreed that there was a need for SSA, State agencies, and intermediaries to take additional practical measures to foster the role of review committees as set out in the law and outlined several actions which it had taken, or proposed to take, to improve the utilization review function. HEW officials estimated that, as a result of such actions, Medicare costs in fiscal year 1972 would be reduced by $60 million. (B-164031(4), July 30, 1971.)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

OFFICE OF THE SECRETARY

Need for improved financial management of special institutions

HEW has certain budget and audit responsibilities for Gallaudet College and the Model Secondary School for the Deaf in Washington, D.C.

In October 1966 the Congress authorized the Secretary of HEW to enter into an agreement with Gallaudet College to establish and operate the Model Secondary School for the Deaf. This agreement was signed on May 16, 1967.

Public Law 90-557, approved October 11, 1968, appropriated $400,000 for salaries and expenses of the school. During May and June 1969, $230,000 was apportioned to Gallaudet College for the school's expenses. The college obligated the entire amount apportioned, and the balance of the appropriation--$170,000--lapsed at June 30, 1969.

Section 712(a) of Title 31, United States Code, provides that appropriations made specifically for the service of any fiscal year be applied only to the payment of expenses properly incurred during that year. GAO noted that about $180,000 of the amount obligated was for fiscal year 1970 salaries, expected travel expenses, rental of equipment, and contracts for certain educational projects. Therefore these amounts were not proper charges to the fiscal year 1969 appropriation.

GAO was informed that the college had obligated the entire amount appropriated for salaries and expenses of the school for fiscal year 1970. Thus, if the $180,000 had been obligated against the school's fiscal year 1970 appropriation, the fiscal year 1970 appropriation would have been overobligated.

HEW's Deputy Assistant Secretary, Budget, agreed that the amount should have been obligated against the appropriation for fiscal year 1970 and stated that measures had been taken to prevent a similar situation from occurring in the future. He also said that, of the questioned amount, $50,000 was still unexpended and could be deobligated but that, because he considered the remaining amount to be relatively small, no further action seemed to be necessary.

In a report to the Secretary of HEW dated July 12, 1971, GAO stated that HEW should inform the House and Senate Committees on Appropriations of these unauthorized obligations and of the corrective action needed. GAO was informed in September 1971 that HEW had not yet reached a decision concerning the needed corrective action and had not reported the matter to the Appropriations Committees. (B-164031(1), July 12, 1971.)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOUSING PRODUCTION AND MORTGAGE CREDIT

Opportunity for accelerating construction and reducing cost of low-rent housing

The Department of Housing and Urban Development (HUD) reviews and approves budgeted construction costs for proposed low-rent housing projects which serve as cost limitations for local housing authorities (LHAs). In an August 1970 report to the Congress, the General Accounting Office (GAO) noted that budgeted costs frequently had been based on unrealistically low cost estimates which did not reflect local prevailing construction costs or additional costs due to changes in the projects. As a result even the low bid for construction exceeded budgeted costs in many cases.

In such cases HUD generally permitted an LHA to award the contract only after it (1) had negotiated reductions in the bid price with the lowest bidders for changes in the scope of the contract work, (2) had resolicited bids on the basis of revised plans and specifications, and/or (3) had obtained HUD's approval of an increase in the budgeted construction cost. These procedures usually delayed construction by an average of 2 months, increased local administrative and financing costs, and added to the work load of the LHA and HUD. Also the practice of negotiating price reductions did not obtain the full benefits of competitive bidding which normally results in achieving the most reasonable prices.

GAO expressed the belief that resultant delays and increased costs could be minimized if (1) HUD reviewed the cost estimates carefully before approving cost limitations and authorizing LHAs to solicit bids, (2) the use of negotiations were limited so as to obtain the full benefit of competition, and (3) LHAs were required to prepare detailed estimates of the cost of proposed changes as a basis for negotiation.

GAO recognized that circumstances might arise which would warrant modification of the scope of a project after bid opening. It was GAO's opinion, however, that HUD should establish specific criteria to be followed by LHAs in such cases and should aim toward limiting contract price negotiations to those cases where it is clearly in the best interests of the Government.

HUD was pessimistic about the possibility of preparing realistic cost estimates and did not agree that LHAs should use independent cost estimates in negotiating contract prices for project revisions. Also HUD decided not to draft criteria setting forth the specific circumstances governing the award of contracts under the negotiation method and the resolicitation-of-bids method. HUD felt that it was desirable to leave the matter of negotiation for case-by-case resolution rather than to attempt the issuance of general guidelines for this purpose. It was HUD's belief that circumstances within the various regions and cities were too variable and that conditions were shifting too rapidly to permit the development of such guidelines at that time.

HOUSING PRODUCTION AND MORTGAGE CREDIT (continued)

HUD did adopt some revised procedures to help minimize processing delays and began a pilot audit of regional office activities, including the areas discussed above. (B-114863, Aug. 4, 1970.)

Problems in rehabilitating housing to provide homes for low-income families

Financial aid is furnished to local housing authorities to acquire and rehabilitate housing for sale or rental to low-income families. GAO reviewed the operation of this program in Philadelphia, Pennsylvania, because about 75 percent of the houses being acquired were in that city. Although benefits resulted, some goals of the Philadelphia project had not been fully achieved and the Department of Housing and Urban Development (HUD) had not effectively enforced compliance with the prescribed requirements for the project.

Contrary to approved plans, considerably more of the acquired units consisted of multifamily housing rather than single-family housing, and many units were located near industrial and commercial sites. Consequently the possibility of low-income families, and their incentive for, purchasing their own homes was greatly reduced. Also the selection of houses for acquisition and rehabilitation was made in a manner that did not encourage repair of adjacent houses by their owners. HUD knew of many of these conditions; it repeatedly notified the LHA that it had failed to comply with the approved development plan and urged the LHA to remedy the situation. There was no indication that the LHA had made any effort to correct the matters brought to its attention.

The program was ineffective also because of important deviations from contract specifications and from HUD's minimum standards of livability and construction in performing rehabilitation work and because there was a need to improve specifications to ensure use of the most appropriate materials. GAO noted differences between certain material requirements for the Philadelphia project and material requirements under other HUD programs, private construction, and materials recommended by HUD for use in the project.

Although HUD took some action concerning construction deficiencies, it did not agree with GAO's position that it should assign more inspectors to ensure that the program is carried out in accordance with approved plans and procedures. HUD stated that, as a result of decentralizing its operations, the new field organizations would be in a position to increase surveillance of local rehabilitation programs; that the Philadelphia Housing Authority was revising its procedures, standards, and specifications; and that funds were being withheld for the correction of certain deviations. (B-118718, Mar. 19, 1971.)

HOUSING PRODUCTION AND MORTGAGE CREDIT (continued)

Need to evaluate economic feasibility of insuring loans at below-market interest rates

HUD's decision to insure a $4.4 million mortgage loan for purchase and rehabilitation of a 285-unit apartment project was not supported by an adequate financial analysis.

HUD's policy for insuring such loans at below-market interest rates under section 221(d)(3) of the National Housing Act provides for the assumption of reasonable risks to achieve important social objectives. Although HUD was aware that there were some economic risks involved in the project, the record did not clearly show that HUD had determined the full extent of the risks.

Also, the basis for a number of decisions made by HUD in approving mortgage insurance for the project appeared questionable: (1) HUD's headquarters office approved the insurance without benefit of a fair market value appraisal of the property, (2) HUD did not, in GAO's opinion, reasonably estimate the cost of rehabilitating the property, (3) the estimate of annual operating expenses used by HUD in evaluating the economic feasibility of the proposed project was not representative of the operating expenses which could have been reasonably expected to be incurred, and (4) the approved rents appeared somewhat high for serving the optimum number of low- and moderate-income families.

HUD adopted GAO's recommendation that a fair market value appraisal be made and used for valuing property to be rehabilitated. Also, in response to other GAO recommendations, HUD stated that appropriate emphasis would be given to the use of work writeups as a basis for estimating costs of rehabilitation, to including allowances for contingencies in estimating rehabilitation costs, and to the use of current and accurate operating expense data. (B-168191, Sept. 23, 1970.)

Tighter control needed on occupancy of federally subsidized housing

Procedures and practices of the Department of Housing and Urban Development (HUD) and of projects owners were not adequate to ensure that multifamily housing provided for low- and moderate-income families under the below-market interest rate mortgage insurance program authorized by section 221(d)(3) of the National Housing Act was being occupied by families intended to be served by the act. GAO's tests showed that housing units were being occupied by families whose incomes may have exceeded the prescribed limits for occupancy. Income information may not have included all relevant data, may not have been current at time of occupancy, and was not verified to determine eligibility for continued occupancy.

HOUSING PRODUCTION AND MORTGAGE CREDIT (continued)

GAO recommended that HUD:

--Strengthen its procedures to promote accurate reporting of income. GAO suggested that each family adult be required to certify the accuracy of income information. Also families approved for membership in federally subsidized cooperative housing projects more than 60 days before occupancy should be required to provide updated income information prior to occupancy, and, if their incomes have increased above the applicable income limits, they should pay the prescribed rent surcharge.

--Provide for more effective surveillance by its field offices of adherence by federally subsidized housing projects to HUD instructions for obtaining and verifying family income information and for assigning families to appropriate-sized units.

--Establish an appropriate precentage-of-income contribution as the minimum rent to be required for units in section 221(d)(3) projects, the maximum rent being the equivalent market, or unsubsidized, rent for the housing.

HUD stated that GAO's findings and recommendations would be studied carefully, but it did not agree that income information should be updated prior to occupancy or that minimum rental rates should be established at an appropriate percentage of income, as required under the new section 236 program for lower income families. GAO suggested, therefore, that the Congress might wish to consider whether such minimum rental rates should be established. (B-114860, Jan. 20, 1971.)

DEPARTMENT OF THE INTERIOR

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DEPARTMENT OF THE INTERIOR

BUREAU OF MINES

Problems in implementation of Federal Coal Mine Health and Safety Act of 1969

In accordance with a request of the Chairman, Subcommittee on Labor, Senate Committee on Labor and Public Welfare, the General Accounting Office (GAO) reported on the significant problems that the Bureau of Mines has had in carrying out its responsibilities for inspection of coal mines and in enforcing the correction of unsafe and unhealthy conditions as required by the act. GAO reported that progress in complying with the requirements of the act had not been in accordance with the target dates set forth in the act and that it did not appear that full compliance would be achieved in the near future.

GAO's review at two districts disclosed that:

--The Bureau had made only about 31 percent of the required safety inspections and about 1 percent of the required health inspections from the effective date of the act through December 31, 1970.

--Mine operators had not made various required samplings and inspections and some that had been made were not adequate.

--In many cases, mine operators had not submitted required plans for mine roof support and mine ventilation and for emergency action in case of fan stoppage nor had they submitted listings of electrical equipment used in mining areas.

--Bureau inspectors found numerous safety violations, many of which were the same type that had been cited during previous inspections. This situation was attributable, at least in part, to the Departments's policies for enforcing health and safety standards, which at times had been extremely lenient, confusing, uncertain, and inequitable.

Bureau representatives stated that shortages of qualified manpower, certain equipment, and sufficient time were the principal reasons for noncompliance with the requirements of the act. As to shortages of equipment, GAO reported that the Bureau (1) had not made overall studies of the availability of equipment and the normal time required to obtain equipment in short supply, (2) may have permitted unnecessarily prolonged noncompliance with certain equipment requirements when comparable substitutes were readily available, and (3) had purchased more dust-sampling equipment than it needed, which contributed to the shortages of such equipment available to mine operators.

GAO recognized that the passage of the act greatly expanded the responsibilities of the Bureau, but GAO believed that more could have been done to achieve greater compliance with the act's requirements.

BUREAU OF MINES (continued)

The Department stated that, with one exception, actions responsive to GAO's proposals had been initiated or planned. The Department disagreed with GAO's proposal concerning the use of people less highly qualified than regular coal mine inspectors to perform health inspections. GAO believes, however, that the Department should give further consideration to the possibility of using such persons if the Department experiences difficulty in recruiting the required number of regular coal mine inspectors. (B-170686, May 13, 1971.)

DEPARTMENT OF THE INTERIOR

BUREAU OF RECLAMATION

Need for improved guidance in determining Federal share of cost of relocating roads and bridges at water resources projects

Roads and bridges to be relocated as a result of the construction of a water resources project must be constructed in accordance with the Flood Control Act of 1960, as amended (33 U.S.C. 701r-1(c)), if the cost of relocation is to be borne by the Federal Government. The act directs that a relocated road or bridge must be designed on the basis of current traffic and constructed in accordance with applicable State or county standards--if a facility is constructed to higher standards, the additional cost must be paid by the owner.

The Auburn-Foresthill Bridge in California is being constructed to meet projected traffic needs, and the Bureau of Reclamation is financing the entire cost, including at least $1.5 million to construct the bridge to meet projected rather than current traffic needs. The Bureau's position was that the bridge could be relocated and federally financed under the general legislation which authorized construction of the Auburn-Folsom South Unit, rather than under the Flood Control Act of 1960, as amended.

GAO advised the Department that the Flood Control Act of 1960, as amended, was the proper legislation for relocating the bridge and that its provisions must be followed. Subsequently legislation was enacted which specifically authorized the Bureau's design for the bridge.

Although the question regarding the authority of the Bureau to finance the entire cost of the bridge was resolved by the new legislation, GAO believed that similar problems might be encountered in the future at other projects and recommended that the Bureau establish policies and procedures for relocating roads and bridges in accordance with the Flood Control Act of 1960, as amended. (B-125045, May 7, 1971.)

Unnecessary replacement of roads and bridges at water resources projects

The Bureau is planning to construct a modern, two-lane, all-weather paved road, with two bridges, to replace (1) a little-used dirt road and two river crossings that are owned by the Federal Government and (2) a similar dirt road and one river crossing that are owned by a county. The estimated cost of the new road and the two bridges is $26.2 million.

On the basis of the condition of the existing roads, the current traffic, the purposes served, and the availability of other roads and bridges to serve existing traffic, GAO expressed the opinion that replacement was not justfied and recommended that the roads and bridges be abandoned without replacement. The Department stated that it did not agree with the recommendation and that, in adopting its feasibility report and in authorizing the project, the Congress had recognized the need for replacing them.

BUREAU OF RECLAMATION (continued)

Neither the feasibility report nor the legislation authorizing the project, however, requires the replacement of all existing roads and bridges or restricts the Bureau from abandoning existing roads and bridges if such action is indicated as a result of more detailed studies of the traffic needs of the area. GAO continues to believe that the recommended action should be taken. GAO also recommended that the Bureau develop criteria for determining when roads or bridges affected by Bureau projects should be abandoned rather than replaced. (B-125045, May 7, 1971.)

Need to consider project benefits when authorizing road and bridge replacements

GAO questioned the Bureau's plans to relocate existing State Highway No. 49 across the crest of the Auburn Dam at an estimated cost of $10.5 million. On the basis of rough estimates provided by the Bureau, GAO stated that $5.5 million possibly could be saved by relocating the road downstream from the dam. More importantly this alternative location would permit annual benefits--the value of products or services resulting from the project--of as much as $59 million to begin to be realized from the Auburn project 3 years earlier than presently anticipated.

The Department stated that a more detailed cost estimate for relocating Highway No. 49 downstream from the dam would probably be considerably higher than the $5 million rough estimate and that it appeared highly doubtful that the Office of Management and Budget and the Congress would be amenable to appropriating funds sufficient for the relocation and the dam construction to be undertaken at the same time, which would be necessary if project benefits were to be realized sooner.

GAO recognized that the $5 million estimate for relocating the bridge downstream from the dam was not a refined estimate but that the potential savings were significant enough to justify having a more detailed estimate prepared for use in determining the alternate route more advantageous to the Government. Also a number of other alternate routes existed which had the advantage of permitting project benefits to be realized sooner than the route selected by the Bureau.

The Department's comment that the Congress and the Office of Management and Budget would not appropriate, simultaneously, the funds needed for relocating the road and constructing the dam is somewhat speculative. GAO stated that the Bureau should decide the most economical plan for relocating the highway and should provide justification for that plan when requesting the necessary appropriations.

GAO recommended that the Bureau make a detailed study of the estimated cost of the downstream route and determine which of the several alternatives is the most economical when both costs and benefits are considered. GAO recommended also that the Bureau develop procedures for all Bureau water resources projects to provide for consideration of the effect that road and bridge relocations will have on the realization of project benefits. (B-125045, May 7, 1971.)

DEPARTMENT OF THE INTERIOR

OFFICE OF TERRITORIAL AFFAIRS

Financial management of Virgin Islands Government needs substantial improvements

In response to a request of the Governor of the Virgin Islands, GAO examined into certain aspects of the financial management system of the Government of the Virgin Islands. The review was concerned primarily with the internal controls and accounting operations relating to selected financial accounts and activities.

The review showed that the Virgin Islands Government needed to strengthen control over its assets and to improve fund-accounting procedures and procurement and payment practices.

--Accounting records did not provide reliable information on the amount of cash on deposit in banks. Errors made by the banks and by the government months, and even years, before had not been corrected. Bank reconciliation procedures provided no assurance that all checks paid by the banks were recorded properly in the records of the government.

--Accounts-receivable records did not provide a reliable record of the amounts owed to the government. Many receivables remained unpaid for long periods, and little effort had been made to collect these receivables.

--No reliable records existed of the government's investment in land, buildings, and equipment because fixed-asset records had not been maintained properly and because the required physical inventories had not been taken.

--Similarly no reliable records existed of the government's investments in materials and supplies.

--Some funds were overobligated, some obligations were not recorded, and some duplicate allotment records were maintained.

--Many procurements were made without the benefit of competition. Waiving of the requirement for formal advertised bids was questionable in some cases.

--Internal audit activities were confined mainly to accounting and financial matters, and, even in this area, little emphasis was given to making audits where major problems existed.

GAO made various recommendations designed to establish and maintain control over the government's assets, to improve the fund-allotment procedures, to improve procurement practices, and to provide for more effective audits of government activities. (B-114808, Mar. 3, 1971.)

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LAW ENFORCEMENT ASSISTANCE ADMINISTRATION

Problems in administration of block grant program

The Law Enforcement Assistance Administration (LEAA) awards planning and law enforcement grants to State and local governments to improve their criminal justice systems. Block grants are awarded to States according to their respective populations. State planning agencies, in turn, make subgrants to State and local governments to be used for projects conforming with comprehensive State plans. The block grant program accounts for $572.4 million, or 67 percent, of the $860.1 million appropriated to LEAA in fiscal years 1969, 1970, and 1971. Administration of the program forms the principal focus of LEAA activities.

In reviewing LEAA's administration of the block grant program, the General Accounting Office (GAO) visited State planning agencies in California, Illinois, and New York, as well as selected local agency subgrantees in those States. These States were chosen because they collectively had received about one fourth of all block grant funds awarded in fiscal years 1969 and 1970.

In July 1971 GAO testified before the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations on the results of its review. GAO's findings and conclusions concerned:

--The slow movement of funds to the subgrantees. Of the $49.5 million in fiscal year 1969 and 1970 block grants awarded to the three States visited, only $9.2 million had been forwarded by the State planning agencies to State and local units of government as of December 31, 1970. GAO attributed some of the slowness to the sudden infusion of substantial amounts of money on the one hand and to a stated policy of reliance on local initiative and administrative machinery on the other. Other explanations included an unwillingness by State and local agencies to undertake some of the projects under programs planned by the State planning agencies and various difficulties in arranging for matching funds.

--Substantial funding of projects dealing with the underlying causes of crime rather than the criminal justice system. Although the funding of projects dealing with the underlying causes of crime is permissible under the broad coverage of the act, GAO believes that these questions can logically be raised--are monies appropriated by the Congress for LEAA block grant activities to some extent merely financing old programs under a new label? and will the diffusive effect of channeling funds into projects which deal with the underlying causes of crime detract from the attention, as well as the funding, which will be focused on the police, courts, and corrections areas?

--Limited evaluation of program and project effectiveness. LEAA has done little toward making its own evaluation of the effectiveness of programs and projects funded with block grants. Also LEAA has

not provided the State planning agencies with the assistance necessary to perform such evaluations in their respective States. Evaluations of project effectiveness are vital to the administration of a program where it is hoped that State and local governments will be induced to assume the costs of improvements after a reasonable period of Federal assistance and where the basic planning is performed by 55 different planning organizations, all having a use for such information. Further the cost and urgency of the program demand some reporting as to whether the individual projects, the State comprehensive plans, and the LEAA program are reaching toward statutory goals.

--Inadequate dissemination of information on research activities. GAO's review of projects approved by California and New York showed that over 50 percent of the $27.1 million approved for funding in these States was for research and study projects. Presently no national dissemination system on criminal justice research is available, and one being undertaken by LEAA will not be operational for several more years.

--Unnecessary interest costs incurred by the Government. State planning agencies maintained excessive cash balances at the State level and advanced funds to subgrantees in amounts greater than necessary to meet actual local needs. GAO believes that interest costs could have been reduced substantially if withdrawals and advances had been more in line with immediate cash needs.

--Overall reviews by LEAA of State planning agency operations made in only four States. GAO believes that LEAA's audit staff would have to be increased substantially over the 38 professional positions requested for fiscal year 1972 to provide adequate audit coverage of the 55 State planning agencies and the 50,000 active grants and contracts estimated for 1972.

--Insufficient State audit efforts. According to an LEAA survey, many State planning agencies made no audits of subgrantees, only a few agencies had sufficient audit capability to audit subgrantee activities, and some agencies had no audit staffs. GAO believes that there will be very limited auditing of subgrantee activity until LEAA succeeds in bringing about the development of the agencies' audit capability.

In May 1971 the recently appointed Administrator of LEAA released the report of a task force which he had appointed to study the LEAA program and to recommend ways by which it could be made more effective. The task force recommended, and the Administrator approved, a more decentralized organization for LEAA providing greater authority for the regional offices, which were increased from seven to 10. Also staff functions at LEAA headquarters were reorganized. In announcing the changes the Administrator stated that they had two objectives: (1) providing long-range programs for improving the criminal justice system and (2) developing programs which have an

immediate impact, especially on street crime. It remains to be seen whether the reorganization and increased emphasis in certain areas will have a favorable impact on the problems that GAO observed. (B-171019, July 22, 1971.)

Opportunity to reduce Federal costs under Law Enforcement Education Program

Under its Law Enforcement Education Program, LEAA makes funds available to institutions of higher education for loans to improve the educational level of those employed or preparing for employment in law enforcement areas (police, courts, and corrections) and for grants to individuals employed in law enforcement areas.

LEAA advances funds to educational institutions primarily on the basis of estimates of needs submitted by the institutions. Because the institutions overestimated their needs and because they were allowed to carry unexpended funds forward for use in the succeeding fiscal year, the institutions retained in their possession large amounts of unexpended funds, thereby increasing Federal interest costs. Interest costs were further increased because institutions received funds too far ahead of the time that students normally paid their tuition and expenses.

GAO estimated that, from inception of the program in January 1969 through August 1970, a minimum of about $440,000 in unnecessary Federal interest costs were incurred as a result of the above practices. At the time of GAO's review, LEAA required that the institutions report only the amount of unexpended funds on hand at the end of each fiscal year. Therefore information was not available to determine the amount of additional unnecessary interest costs incurred on unexpended funds held by the institutions during interim periods.

It is the Government's policy to improve, as much as possible, the timeliness of disbursements from the Treasury. Treasury Circular 1075 (revised), dated April 10, 1969, stated that cash advances to recipients, including educational institutions, were to be limited to minimum amounts needed and timed to be in accord with the institutions' actual cash requirements.

GAO made several suggestions to the Attorney General for minimizing interest costs. Subsequently the Department of Justice stated that it was taking action to (1) delay issuing funds to schools until the last possible moment and (2) revise completely its funding system to provide for the funding of institutional needs on a school-term basis. The Department's revised funding system was put in operation on July 1, 1971. GAO believes that the action taken should reduce Federal interest costs. (B-171019, July 22, 1971.

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DEPARTMENT OF LABOR

EMPLOYMENT STANDARDS ADMINISTRATION

Need for improved administration of Davis-Bacon Act

In a series of reports issued between June 1962 and August 1970, the General Accounting Office (GAO) informed the Congress of the manner in which the Department of Labor had made minimum wage rate determinations under the Davis-Bacon Act and related legislation for selected major federally financed construction projects. The reports pointed out that the minimum rates prescribed by the Department were significantly higher than the prevailing wages in the areas and had substantially increased the costs of construction borne by the Federal Government.

GAO's reviews over the past decade covered wage rate determinations for 29 selected construction projects, including military family housing, low-rent public housing, federally insured housing, and a water storage dam. GAO estimated that, as a result of minimum wages being established at rates higher than those actually prevailing in the area of the project, construction costs increased by 5 to 15 percent. This amounted to about $9 million of the total $88 million construction costs involved in these projects.

Because of the large volume of wage determinations made by the Department--about 25,900 in fiscal year 1970--and the substantial dollar amount of federally financed construction contracts--about $28 billion in 1970--GAO sought to identify and summarize the current shortcomings in the wage determination process. In a report to the Congress in July 1971, GAO recommended corrective actions beyond those taken by the Department in response to its prior reports.

Higher wage rates not only increase the costs borne by the Federal Government but also can adversely affect the economic and labor conditions in the area of the project and in the country as a whole. The inflationary impact of minimum wage determinations was highlighted by the President of the United States when he temporarily suspended the Davis-Bacon Act and related legislation in February 1971 because of the severe inflationary pressures existing in the construction industry.

The concept of the Davis-Bacon Act was that payment of prevailing wages would preclude the depressing of local wages but would not be inflationary and therefore would not bring about unreasonable increases in the cost of federally supported construction. GAO found that these objectives could, and should, be achieved through a more reasonable implementation of the act and by an improvement in the wage determination process in the following respects.

--The Department should identify the classifications of workers for which determinations should be made. In some cases the Department applied the wage rates of one classification to another classification without investigating the rates paid to each classification.

--In defining the geographical area for which prevailing wages were to be determined, in some cases the Department went beyond the county where the project was located and applied rates from other, sometimes nonadjacent, counties or from another State having different labor conditions.

--In many cases the Department did not distinguish between different types of construction, such as commercial and residential, although significant variances exist between labor rates applicable to these two types of construction. Often wage determinations applied the higher rates for commercial-type building construction and disregarded the rates for residential-type construction.

--The Department placed undue emphasis on wage rates established in prior determinations or on rates included in collective-bargaining agreements, without verifying whether such rates were representative of the rates prevailing on similar construction in the area. These practices could be attributed to the fact that the Department had not compiled sufficient up-to-date and accurate information on prevailing basic wages and fringe benefits.

--The Department's wage determinations do not generally prescribe separate rates for helpers and trainees. GAO believes that, where local labor practices recognize these categories, separate rates would assist in lowering construction costs and would encourage contractors to hire semiskilled and untrained persons on Government-financed projects. Such a procedure could be particularly desirable in areas of hard-core unemployment.

--To obtain up-to-date wage information--including information on wage patterns and labor practices in specialized industries--the Department needs the cooperation of the Federal agencies which finance construction projects subject to minimum wage determinations. Efforts have been made recently by some of these agencies to provide the Department with needed wage data. Such cooperation would be increased materially by more formalized, continuing working relationships between the Department and the agencies.

In response to GAO's recommendations for corrective action, the Assistant Secretary for Administration assured GAO, by letter dated April 2, 1971, that the Department was conscious of the need for continuing its efforts to find a practical solution to the accurate determinations of prevailing wage rates.

In addition to making recommendations to the Department, GAO suggested that the Congress might wish to consider a revision of the Davis-Bacon Act to increase the minimum contract cost (presently $2,000) which is subject to wage determinations. GAO believes that an amount between $25,000 and $100,000 would be more representative of present-day costs of construction projects. GAO believes also that an increase in the minimum contract cost

would reduce substantially the number of wage determinations to be issued by the Department and would thereby lessen the administrative burden imposed on it (and on the contracting parties) without appreciably affecting the wage stabilization objectives of the act. (B-146842, July 14, 1971.)

DEPARTMENT OF LABOR

MANPOWER ADMINISTRATION

Need to enhance effectiveness of on-the-job training in Appalachian Tennessee

In November 1970 GAO reported a number of weaknesses in the training activities of the community agencies and their subcontractors which were conducting an on-the-job training program in Appalachian Tennessee under contracts with the Department of Labor. Through June 30, 1969, the Department had spent about $2.8 million in Appalachian Tennessee to train 8,700 workers under the on-the-job program, which was authorized by the Manpower Development and Training Act of 1962.

GAO found that:

--Most of the employers visited by GAO were not providing any training beyond that normally provided to new employees or generally were not hiring persons with any less, or different, qualifications from those of persons they previously had hired under their normal business practices. Under these circumstances nothing of significance was being accomplished by the program that was not being accomplished otherwise, and Federal funds were being dissipated that could have been used for productive on-the-job training activities.

--A number of persons reported by employers as receiving training for entry-level jobs already possessed extensive experience in the skill in which they supposedly were being trained.

--In some instances employers had been paid for a full training period for enrollees who had not completed their training or who were included under two training subcontracts at the same time.

--In many instances the community agencies enrolled persons for training who had not been screened, tested, counseled, or certified by the State Employment Service as required by the contracts with the Department.

--In line with its national goal, the Department's contracts with the two community agencies provided that at least 65 percent of the trainees be chosen from the disadvantaged. One of the community agencies did not meet this goal.

GAO reported that, although the Department is responsible for visiting the on-the-job training contractors to develop comprehensive program information, such as trainee attendance, completion, and dropout rates, neither the Department nor the community agencies had made any real effort to monitor employers' training activities. Increased monitoring might have detected and helped to correct the weaknesses noted. GAO reported further that there was a need for closer coordination between the Department, the State Employment Service, and community agencies to enhance the overall effectiveness of the program.

MANPOWER ADMINISTRATION (continued)

The Department advised GAO that internal studies conducted by it had produced substantially the same conclusions as those reached by GAO and that, in many cases, steps had already been taken to correct the problems. GAO concluded that recent changes in the Manpower Development and Training Act, providing for transfer of certain functions to the State agencies, and the Department's proposed actions, if properly implemented, should serve to improve the effectiveness and the administration of the program. (B-146879, Nov. 13, 1970.)

Opportunities for improving training activities at manpower training skills center

The Departments of Labor and Health, Education, and Welfare, in cooperation with the California State security employment and vocational educational agencies, administers, under the Manpower Development and Training Act of 1962, an institutional or classroom-type training program for unemployed or underemployed persons at the East Bay Skills Center in Oakland, California. From its inception in April 1966 through December 1969, this Center had received Federal funds of about $15 million and had provided training to about 3,900 persons.

GAO reported the following weaknesses and problems in the administration of the program at this Center.

--Space acquired, renovated, and equipped was designed to provide training to 1,500 individuals at one time. From April 1966 to December 1969, however, the Center had an average monthly enrollment of about 490 trainees, or only about 33 percent of the complement that the Center was designed to serve.

--Center facilities were not fully used because (1) Department of Labor's funding for this and other skills centers was reduced below the level that had been planned, (2) provisions were not made for other federally supported organizations to use existing excess facilities for their training programs, (3) the Center's method of funding its training courses on a project-by-project basis was causing delays in initiating follow-on training courses after prior courses had been completed, and (4) the design of the training courses did not readily permit new trainees to enter into training positions made available through attrition as the courses were proceeding.

--Persons referred to the Center for training frequently did not meet the enrollment criteria that a person must be in need of training to obtain employment. Some trainees were physically or emotionally handicapped and some appeared to have possessed, at the time they were referred for training, sufficient skills to obtain employment without training.

--The Center's counseling program was designed to help the trainees plan their vocational goals and to assist them with personal problems

MANPOWER ADMINISTRATION (continued)

that would hinder their progress in getting a job. Only limited counseling services were provided, however, and records frequently were not maintained on the counseling that had been provided.

--Contrary to the Manpower Development and Training Act and to Department of Labor directives, many trainees were paid training allowances for unexcused absences.

--The local employment security agency did not develop needed information on the status of trainees who left the Center for employment and did not provide these trainees with follow-up services, such as additional training and placement.

The Departments of Labor and Health, Education, and Welfare were in general agreement with GAO's recommendations and outlined corrective actions to improve the Center's operations.

It was GAO's opinion that the problems noted could have been identified and corrected earlier through more appropriate and timely monitoring by the two Federal Departments and their State counterparts. (B-146879, Feb. 10, 1971.)

Need for improvements in administration of Job Opportunities in the Business Sector (JOBS) program

The JOBS program, designed to assist disadvantaged persons achieve self-sufficiency through employment in private enterprise, is one of the principal manpower programs. It was started in January 1968 by the Department of Labor in cooperation with the National Alliance of Businessmen. Through June 30, 1970, the Department had allocated $499.1 million to the program.

In a report submitted to the Congress in March 1971, GAO reported that the program had been effective in focusing the attention of business on the employment problems of disadvantaged persons and in eliciting broad responses and commitments by many private employers to hire, train, and retain the disadvantaged. GAO made the following observations, however, on the need for accumulating more accurate and meaningful data on program operations, on the manner in which the program was conceived and designed, and on the need for improvements in administering and operating the program.

1. Reporting by the Department and the National Alliance of Businessmen on the total number of jobs pledged by business, trainees hired, trainees terminated, and trainees on board and on the trainee retention rate was based substantially on data that, for the most part, had not been verified and, in some cases, was inaccurate or misleading. A revised and improved management information system was put into use in February 1970, but efforts were needed to obtain employers' compliance with the reporting requirements.

MANPOWER ADMINISTRATION (continued)

2. As conceived the JOBS program provided for helping the disadvantaged to obtain meaningful employment creditably well during periods of high or rising employment but not during periods of high or increasing unemployment. Since the program began during a period of high employment, it appeared that adequate consideration might not have been given to what would happen during periods of declining labor demand.

3. The persons whom the JOBS program was designed to assist constitute too broad a segment of the population and include many who have no clear and legitimate need for assistance under this type of program. Many persons enrolled under present eligibility criteria appeared to require placement assistance only, not the costly on-the-job training and support services that are also integral parts of this program.

4. Regarding the need for improving the administration and operation of the program, GAO observed that:

--Contracting for on-the-job training on a fixed-unit-price basis generally was not appropriate and, in many cases, resulted in excessive payments to contractors. The excessive payments were due primarily to the fundamental difficulty of negotiating fixed-unit-price contracts at a time when neither the amount of training required nor the costs of providing the training were known.

--The number of job pledges by some prospective employers were unrealistically high and not always consistent with their ability, or intention, to provide jobs. As a result information on industry participation was unrealistic.

--A significant number of the jobs provided by contractors paid low wages and appeared to afford little or no opportunity for advancement. In these cases it appeared that very little was being accomplished for the funds expended.

--Substantial improvements were needed in ascertaining and documenting the eligibility of persons for enrollment in the program. A substantial number of the trainees did not meet the eligibility criteria or could not be identified readily as having met the criteria because pertinent information either had not been obtained from them or had not been reported to the National Alliance of Businessmen.

--The Department's failure to scrutinize contractor performance perpetuated many of the problems identified by GAO.

GAO's report contained a number of recommendations for improvements. The Department, however, disagreed with GAO's recommendation that, when cost experience is lacking, contracting for on-the-job training and supportive services be on a cost-reimbursement basis rather than on a fixed-unit-price basis. It was the Department's view that contracting on a cost-reimbursement basis did not appear to be feasible or practicable and would preclude many

smaller companies that did not have suitable cost accounting systems from participating in the program. In GAO's opinion reasonable documentation of costs need not be burdensome and need not preclude any prospective contractor, however small, from participating in the program. (B-163922, Mar. 24, 1971.)

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DEPARTMENT OF STATE

Denial of GAO's request to review United States occupation costs in Berlin, Germany

The Department of State denied the General Accounting Office (GAO) the right to examine, review, or audit records relating to U.S. occupation costs in Berlin, Germany. Therefore GAO was unable to carry out an examination scheduled as a part of its continuing audit responsibility pursuant to the Budget and Accounting Act of 1921.

GAO's objective in this review was to examine into the U.S. costs incurred in the occupation of Berlin and the system of accounts and controls administered by the U.S. Army, to assure GAO and the Congress that U.S. financial interests were being protected properly. In GAO's request for access to this information, Department of State officials were informed that the review would be limited solely to U.S. occupation costs based on records available in the U.S. agencies.

In a December 1970 letter to the Secretary of State, the Comptroller General noted the delays by the Department in Washington and the Embassy in Bonn as an example of GAO's increased difficulties in obtaining access to records from the Department of State. The letter stated that GAO's request to review U.S. Berlin occupation cost data was made in May 1970 and that 6 months later GAO had not received any decision from the Department.

After repeated requests and meetings with the Department concerning access problems in this review, GAO was advised in March 1971 that it would not be permitted to examine the records pertaining to U.S. occupation costs in Berlin. In its refusal the Department did not state that the records had been denied as a result of the President's invoking his right of executive privilege. GAO believes that, in the absence of the exercise of executive privilege, the Department of State has no valid basis or authority to deny GAO the right to examine, review, or audit records necessary for conducting its examination.

These denials prohibited GAO from carrying out its statutory responsibilities as assigned by the Congress.

The matter was reported in detail to eight committees of the Congress and to the Secretary of State in April 1971. GAO officials testified before congressional committees after issuance of the report concerning this problem. Despite the intense interest generated by the report, the issue has not been resolved and GAO still is awaiting action on its request to review occupation costs in Berlin. (B-169960, Apr. 20, 1971.)

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DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

Need for improved administration and related matters for congressional consideration with respect to U.S. aid to Honduras

In December 1970 the General Accounting Office (GAO) issued a report to the Congress concerning the administration and effectiveness of U.S. economic and military aid to Honduras. From 1961 to 1970 U.S. direct and indirect assistance to Honduras was about $149 million.

GAO found that Honduras' economic growth had accelerated during the 1960's but that social and political development was less evident and that serious obstacles to further economic development remained.

GAO concluded that basic changes in U.S. assistance program strategy would probably be required if existing U.S. objectives were to be achieved in Honduras during the 1970's. GAO concluded that the United States had (1) adopted a number of goals in Honduras without fully considering the feasibility of their implementation, (2) focused planning on short-term rather than on long-term progress, (3) not established specific program goals, and (4) not developed criteria to determine whether Honduras was receiving more assistance than it could absorb effectively.

On the basis of these observations, GAO's recommendations to the Department of State and the Agency for International Development (AID) included (1) a reevaluation of the political and economic feasibility of achieving U.S. development goals in Honduras during the 1970's, (2) increased systematic analysis of developmental experience in Honduras, (3) an emphasis on a long-run program evaluation system, (4) increased emphasis on Honduras' self-help actions, with the U.S. assistance package to be negotiated annually on the basis of the actions taken, (5) the development of a long-range, program-planning and program-funding framework, and (6) the creation of a technical and policy-coordinating group composed of representatives from each assistance donor.

The Department of State and AID accepted these recommendations with certain qualifications and took them under advisement. They commented that the report did not appear to fully reflect the progress made in recent years in program planning and evaluation. In this regard the Department and AID elaborated on their efforts in formulating project and individual activity targets. As pointed out in GAO's evaluation of their comments on the report, although present Department and AID practices may more systematically address themselves to individual projects and activities, they generally have not focused on the larger and longer range of U.S. assistance program goals, their feasibility, and the appropriate period for accomplishment.

Since GAO believed that the Department and AID system for evaluating the effectiveness of U.S. assistance and for presenting and justifying annual programs to the Congress had not been properly structured to show

long-range program considerations in Honduras, it concluded that the Congress might wish to consider (1) whether executive branch foreign assistance program justifications to the Congress should be restructured to show (a) the past and prospective economic, social, and political progress of the recipient country, (b) a more explicit focus on the time period required before U.S. assistance could be phased out, and (c) the relative assistance levels during this period and (2) whether congressional action might be desirable to encourage the development of improved analytical tools to more objectively and accurately measure the impact of U.S. assistance programs on a recipient country's rate of development. (B-169521, Dec. 3, 1970.)

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DEPARTMENT OF TRANSPORTATION

FEDERAL AVIATION ADMINISTRATION

Airport safety inspection program needed to improve flight safety of civil aircraft

The Federal Aviation Administration (FAA) has had general authority since 1958 to prescribe reasonable rules and regulations or minimum safety standards regarding air carrier airports that serve commercial passenger and cargo air carriers certificated by the Civil Aeronautics Board and general aviation airports which ordinarily serve only private and small commercial aircraft.

The General Accounting Office (GAO) reported that, although conditions at airports might seriously influence flight safety, FAA did not have a program specifically designed to evaluate the safety of public airports. It relied on airport inspections under other programs which did not have safety as a primary objective. GAO concluded that these programs neither singly nor collectively provided the data required for determining the safety of an airport.

GAO concluded also that an airport safety inspection program was needed so that FAA could better fulfill its responsibility of ensuring the flight safety of aircraft at both air carrier and general aviation airports and suggested that such a program be implemented.

In March 1970 GAO furnished its findings to congressional committees considering a bill requiring FAA to develop and enforce minimum mandatory safety standards for air carrier airports and to certificate airports meeting such standards. In May 1970 the Congress passed the Airport and Airway Development Act which contained those requirements.

The Department informed GAO in June 1970 that it intended to implement GAO's suggestion with respect to air carrier airports as part of its overall implementation of the Airport and Airway Development Act which required complete certification by May 1972. FAA officials subsequently stated, however, that they were 7 months behind their planned schedule for issuing minimum mandatory safety standards to be used in certifying airports. The Department also said that it planned to survey general aviation airports and implement safety standards as needed. (B-164497(1), Jan. 15, 1971.)

Improved surveillance needed over production of critical parts for civil aircraft

FAA is required to prescribe minimum standards, rules, and regulations to promote flight safety of civil aircraft. With respect to the airworthiness of aircraft, FAA promulgates standards governing aircraft design, materials, workmanship, construction, and performance. It also provides surveillance over manufacturers which it certificates as capable of producing aircraft, parts, and equipment. These manufacturers are commonly referred to as production certificate holders.

FEDERAL AVIATION ADMINISTRATION (continued)

GAO reported that certain parts critical to the flight safety of civil aircraft, which are furnished by suppliers to aircraft manufacturers, airline companies, and other aircraft owners, generally were not being subjected to production surveillance by FAA or by the production certificate holders. The parts not under production surveillance are known as proprietary parts because neither FAA nor the certificate holders have design control over them, and inspection ordinarily is restricted to functional verification at receiving points.

FAA officials in Washington were aware of this lack of surveillance but had not determined the scope or magnitude of the problem. Some critical aircraft parts classified as proprietary parts were placed under production surveillance subsequent to the occurrence of an aircraft accident or incident that had been caused by the malfunction of the parts.

Under FAA's existing program for production surveillance, a number of standard conformity inspections are made, covering numerous manufacturing control areas, such as heat treatment, laboratory testing, and metal-surface treatment. The FAA program provides comparable levels of production surveillance over the manufacturing activities of both production certificate holders and their suppliers, except for the manufacturing of proprietary parts. GAO reported that surveillance coverage under this program was limited, however, by the availability and location of FAA inspection staffs and by the continued increase in the number of manufacturing facilities subject to surveillance.

One of the FAA regional offices proposed that the production surveillance be directed or limited on the basis of an evaluation of the adequacy of manufacturers' quality control systems over critical aircraft parts. GAO concluded that the proposed system could provide the expanded production surveillance capability necessary to cover critical aircraft parts, such as proprietary parts, that were not receiving such coverage by FAA or by the production certificate holders.

Subsequently the Department stated that it had taken certain actions to bring the production of critical proprietary parts under surveillance. (B-164497(1), Feb. 25, 1971.)

Improvements needed in procedures for determining when spare parts are excess

During 1967 FAA declared as excess spare parts which had cost about $9 million, to reduce quantities on hand at the Aeronautical Center Supply Depot, Oklahoma City, Oklahoma, to newly established 5-year stockage limits. The parts had been purchased for use in maintaining FAA's network of air traffic control and air navigational aid facilities. The disposal was prompted, in part, by a 1966 Presidential memorandum directing that inventories be reviewed and that excess quantities be disposed of. GAO made a review to evaluate the bases for a disposal program of such magnitude and

to ascertain whether, after the disposals, FAA had found it necessary to procure a significant quantity of any of the items previously disposed of.

GAO concluded that FAA needed to improve the Center's procedures for determining whether items in the spare-parts inventory should be retained or declared excess. Under the inventory management system, estimated future needs for spare parts were based solely on quantities issued during the preceding 12 months and the current month without considering data on the types and number of facilities in operation for which particular parts were needed and on the expected remaining useful lives of such facilities.

GAO found that new requirements arose during the 23 months following fiscal year 1967 for significant quantities of spare parts identical to those which had been declared excess during April, May, and June 1967 when parts which cost about $3.8 million were declared excess. It was estimated that the newly acquired parts would cost $473,900.

GAO recommended that FAA assemble and organize into appropriate form information pertaining to (1) the types and number of facilities in use, (2) the particular spare parts needed to maintain each type of facility, and (3) the expected useful lives of the facilities.

GAO recommended also that FAA establish procedures designed to ensure that such information is used appropriately in inventory management decisions and that, in the interim, FAA declare spare parts excess only after it has been determined that they are obsolete or unfit for use or that continued retention would be economically impracticable.

The Department of Transportation acknowledged that FAA's inventory management procedures could be improved but stated that it believed that FAA's continuing program of improving inventory management procedures met the basic intent of GAO's recommendations and that no specific changes were necessary. (B-164497(1), July 22, 1970.)

DEPARTMENT OF TRANSPORATION

FEDERAL HIGHWAY ADMINISTRATION

Improvements needed in management of Highway Safety Rest Area Program

Safety rest areas essentially are rural facilities designed to provide motorists with adequate opportunities to stop safely and rest for short periods. Costs of constructing these areas generally are shared by the States and the Federal Highway Administration (FHWA).

In administering the Highway Safety Rest Area Program, FHWA did not require the States to establish and adhere to a system of priorities to ensure that safety rest areas were constructed first at locations which would meet the motorists' greatest needs.

Also FHWA did not provide or require that the States adhere to definitive guidelines relating to the size, type, quality, and cost of rest areas acceptable for approval for Federal financial participation. As a result, the amount of land and the size, type, and cost of facilities varied widely for rest areas designed to serve similar volumes of traffic. The cost and quality of equipment for these rest areas also varied widely.

GAO recommended that the Secretary of Transportation require FHWA to (1) require the States to establish priorities to ensure that safety rest areas will be constructed first where most needed, (2) issue guidelines setting forth limits on the amount of land and on the size, type, and cost of facilities and equipment that will be acceptable for Federal financial participation, and (3) establish review procedures at the national level to ensure that these priorities and guidelines are being followed.

The Department of Transportation stated that FHWA would continue surveillance of the design of safety rest area facilities, including locations and land acquisitions, to be certain that Federal funds were spent properly and wisely and that, in revising current guidelines, it would consider the advisability of specific guidelines along the line recommended by GAO. The Department rejected the idea, however, that it would be proper to establish specific cost limitations for equipment. GAO believes that, in the absence of guidelines regarding the type and cost of equipment acceptable for Federal financial participation, there will continue to be a lack of assurance that needed facilities are being provided at reasonable costs. (B-164497(3), June 2, 1971.)

DEPARTMENT OF THE TREASURY

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DEPARTMENT OF THE TREASURY

OFFICE OF THE COMPTROLLER OF THE CURRENCY

Rent should be charged for occupying space in Government-owned buildings

As required by law, funds for financing the operations of the Office of the Comptroller of the Currency are obtained by assessments against the national banks which it regulates and supervises. Rent-free space, however, still is being provided in Government-owned buildings. At June 30, 1969, the office occupied 151,917 square feet of space--72,911 square feet of rent-free space in Government-owned buildings and 79,006 square feet of space in privately owned buildings at an annual rental of about $390,000.

The General Accounting Office (GAO) believed that it was inconsistent for the Office of the Comptroller to bear the cost of leased space in privately owned buildings and not bear the cost of space occupied in Government-owned buildings. As a result of GAO's suggestion that the Office of the Comptroller be required to pay for the fair rental value of space occupied in Government-owned buildings, the Department of the Treasury advised the Comptroller that, effective July 1, 1970, the Department planned to charge the Office of the Comptroller rent for space it occupied in the Treasury Building and the Treasury Annex in Washington, D.C.

Officials in the Office of the Comptroller advised GAO in May 1970 that they agreed with the principle of paying fair rental for space occupied in Government-owned buildings and that some minor details in the Department of the Treasury's computation of rent were being further negotiated. They also stated that they would negotiate rental rates when contacted by other agencies furnishing space. GAO was advised, however, that, as of June 30, 1971, final agreement had not been reached with the Department of the Treasury or with the other agencies--the Post Office Department and the General Services Administration. (B-168904, Aug. 24, 1970.)

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

Progress toward independent and comprehensive audits of Inter-American Development Bank

The Inter-American Development Bank makes loans and provides technical assistance for the economic development of its Latin American member countries. Its operations are financed principally by contributions from members and borrowings on the open bond market. The Bank has 23 member countries, one of which, the United States, has contributed 76 percent of all members' financial support.

U.S. membership in the Inter-American Development Bank was authorized by the Inter-American Development Bank Act, approved August 7, 1959. The Bank was established by international agreement that same year. The act was amended in 1967. Among other things, the amendment directed the Secretary of the Treasury (the U.S. representative in the governing body of the Bank) to work toward independent and comprehensive audits of the Bank.

The amendment also directed the Comptroller General to prepare a scope of audit and auditing and reporting standards for use in formulating the terms of reference for the audits, to review periodically audit reports issued, and to report to the Secretary of the Treasury and to the Congress on his review of the reports.

In January 1968 the Comptroller General transmitted to the Secretary of the Treasury the required statement on the scope of audit and the auditing and reporting standards. This was the basis for a statement of basic guidance and standards on the establishment and operation of the audit program approved by the Bank's Board of Executive Directors in March 1968.

Implementation of the program was begun in October 1968 with the creation of a staff called the Group of Controllers of the Review and Evaluation System. The group is independent of the Bank's management; it is responsible to, and derives its working instructions from, the Bank's Board of Executive Directors.

In July 1970 GAO made its first report pursuant to the 1967 legislation. At that time the group had issued three reports. The group's third report was not included in GAO's current review because it had been forwarded after GAO had completed its review of the first two reports and had sent a draft report thereon to the Department of the Treasury for comment.

In its report GAO stated the belief that the issuance of the reports by the group represented a positive step toward implementation of a program of independent and comprehensive audit of the Bank. The group's productivity, however, had been limited, in part, because of its small staff. GAO felt that the staff, which consisted entirely of economists, should be expanded and that, to complement the group's expertise, it would be desirable to recruit persons from varied academic disciplines and professional backgrounds.

OFFICE OF THE SECRETARY (continued)

The first two reports issued by the group had deficiencies in either substance or format, which severely limited the reports' usefulness as management tools. Treasury Department and Bank officials were aware of these deficiencies and indicated that they expected considerable improvement in future reports.

The group's third report will be analyzed by GAO in the future. The report was accompanied by a brief which appeared to be an excellent summary of the findings and recommendations for corrective action. Also the brief will need to be analyzed by GAO in the light of the report itself, but, on cursory review, it appears to be a useful tool for the Bank's management and Board of Executive Directors.

Although the Bank's program of audit had experienced problems, including getting off to a slow start, it was hoped that, with the recent appointment of a new U.S. member to the group and close attention by the Department of the Treasury, the group would develop into an effective evaluative mechanism.

GAO recommended that the Secretary of the Treasury:

--Urge the Bank's Board of Executive Directors to expand the group with additional senior staff having professional experience in management auditing or consulting and varied academic backgrounds.

--Impress upon the group the continued need for clear and concise presentation of its findings and recommendations for corrective action.

The Department of the Treasury said that it agreed with the overall thrust of GAO's report and that it was in the process of implementing GAO's recommendations. The Department added that, although the size and skills of the senior staff of the group were now being expanded, the Bank's internal audit staff was planning to step up its review activity and that the degree to which this work should be duplicated or replaced by the group needed further study. GAO believes that all internal audits and reviews should be taken into account by the group when setting the scope of its own work. (B-161470, July 20, 1971.)

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APPALACHIAN REGIONAL COMMISSION

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APPALACHIAN REGIONAL COMMISSION

Limited progress of Appalachian highway program

The Appalachian Regional Development Act of 1965 was enacted to promote the economic development of the Appalachian region on a coordinated and concerted regional basis. The Appalachian Regional Commission, created by the act, established a development highway system about 2,900 miles in length to open up isolated areas of the region and to connect these areas with the Interstate Highway System.

About 2,530 miles of highways in the system were considered inadequate, requiring new construction or improvement, and were eligible for financing under the act. About 50 percent of this mileage has been constructed or planned for construction with the $1.08 billion in Federal funds authorized. These highway segments will be scattered throughout the participating States, and some of them do not significantly increase accessibility to and through the region. Although these segments do ease local traffic congestion and improve local accessibility, they were not to be designed and built with that objective in mind. Rather they were to be designed and built as instruments of economic development--to open up isolated areas.

The Regional Commission did not establish construction priorities directed toward achieving the greatest contribution toward program goals at the earliest practicable time, nor did it determine whether priorities established by the States were directed toward that end. Instead the Regional Commission allocated the available Federal funds on the basis of the estimated cost of the highways authorized for each State. The States, in effect, were allowed to set their own priorities, regardless of the extent to which they might further regional accessibility.

The current estimated cost of the development highway system is $3.85 billion, an increase of $2.65 billion over the original estimate. Part of the increase resulted from more realistic cost estimating. Changes in program requirements--such as increases in the number of miles of highway to be constructed and the imposition of new Federal requirements, such as safety standards and design hearings--also contributed to the increase.

The Regional Commission disagreed with the General Accounting Office's (GAO's) conclusion that priorities for highway construction should have been allocated to projects having the highest regional priority. The Regional Commission also stated that it believed that GAO had somewhat overstated the problem of highway fragmentation that had resulted.

Because the Congress was considering legislation to provide additional funds for the development highway system, GAO suggested that the Congress might wish to consider requiring the Regional Commission to adopt a regional approach to the construction of the development highways. (B-164497(3), May 12, 1971.)

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ENVIRONMENTAL PROTECTION AGENCY

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ENVIRONMENTAL PROTECTION AGENCY

Need for congressional consideration of problems relating to control of industrial water pollution

State governments have the primary responsibility for controlling water pollution. A General Accounting Office (GAO) study of 14 waterways in five States showed that some progress had been made in abating industrial water pollution but that much more needed to be done. The approach, emphasis, and achievements attained varied from State to State. In some States action by the State government had spurred industry to action, whereas, in other States, few tangible results could be seen. GAO found wide variances in the levels of financing and staffing of the five State pollution control agencies.

Effective planning was hampered by such problems as the lack of data on the types and extent of pollutants being dumped into the waterways by industry and the lack of knowledge of the effect of certain pollutants on the water.

GAO recommended that the Environmental Protection Agency (EPA) (1) encourage the States to strengthen their staffs, (2) develop an inventory of industrial polluters, and (3) obtain data on trends in water quality and progress being made to meet abatement target dates. Subsequently EPA stated that actions it had initiated were in accord with these recommmendations.

In addition, enforcement action against polluters was hindered by a lack of (1) information on trends in water quality and progress being made to meet State implementation schedules, (2) authority to enforce specific effluent restrictions, and (3) authority to enforce dates set for implementing abatement measures without having to show a violation of water quality standards or danger to health and welfare--a procedure which could be costly and time consuming. Under present law EPA can act only when pollutants cross a State boundary, when the Governor consents in cases of intrastate pollution, or when substantial economic injury results from the inability to market shellfish.

GAO recommended that the Congress consider the matters discussed in GAO's report during congressional deliberations on proposed water pollution control legislation, which would provide for (1) increased grants to support State water pollution control agencies, (2) expanded Federal authority over all navigable waters both interstate and intrastate, and (3) Federal authority to enforce specific effluent restrictions and implementation schedules.

GAO recommended also that the Congress consider whether applicants for Federal grants should be required to provide secondary treatment even in those cases where less than secondary treatment would result in meeting water quality standards established by the States and approved by the Federal Government.

The five States included in the review generally required polluters to provide secondary treatment or its equivalent. The requirement was due, at least in part, to encouragement from EPA (formerly the Federal Water Quality Administration, Department of the Interior). Secondary treatment may not always be necessary to achieve desired water uses. Although the Department of the Interior disagreed, GAO believes that less than secondary treatment should be acceptable where such treatment is sufficient to meet water quality standards. A requirement for secondary treatment can result in additional capital expenditures and operating costs without increasing water uses. (B-166506, Dec. 2, 1970.)

EXPORT-IMPORT BANK OF THE UNITED STATES

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EXPORT-IMPORT BANK OF THE UNITED STATES

Increased cost of private financing over cost of Treasury securities

Financial resources for activities of the Export-Import Bank of the United States (Eximbank) are derived mainly from (1) borrowing from the U.S. Treasury, (2) the sale of its own securities in the private market, (3) repayments of loan principal, and (4) income from operations.

The General Accounting Office's (GAO's) report to the Congress on its audit of Eximbank's activities for fiscal year 1970 pointed out that Eximbank financed its operations, in part, by borrowing in the private market rather than through the Treasury--apparently because Eximbank believed that this type of financing resulted in benefits in computing the overall Federal budget surplus (or deficit) and in relieving pressures on the statutory debt limits.

GAO believes that these benefits are questionable and that Eximbank's private borrowing results in substantially increased interest costs when compared with the cost of direct Treasury borrowings. During fiscal years 1962 through 1970, private financing cost $43.2 million more than borrowing through the Treasury would have cost; additional costs of $29.6 million will be incurred over the remaining life of Eximbank's own securities.

Although Eximbank officials agreed that financing in the private market had increased the cost of its operations, they believe that Eximbank should have continued flexibility in determining whether to borrow funds from the Treasury or in the private market.

In view of the substantial additional costs incurred because Eximbank has financed its operations in the private market, the Congress may wish to consider whether to require Eximbank to obtain its funds from the least costly source. Normally the source will be the Treasury; however, there may be some instances in which Eximbank may be able to borrow funds in the private market at less cost than from the Treasury. GAO, therefore, believes that Eximbank should retain the latitude to borrow in the private market only when it can do so at less cost than through the Treasury.

Concessionary interest rates on borrowings from the Treasury

GAO also found that arrangements in effect for some years permitted Eximbank to borrow substantial amounts from the Treasury at reduced rates. Had the Treasury charged Eximbank interest rates approximating the full cost of funds, Eximbank's interest and other financial expenses would have increased by about $16.8 and $6.9 million in fiscal years 1970 and 1969, respectively. GAO was advised by Eximbank officials that these special borrowing arrangements had been made with the Treasury to compensate, in part, for Eximbank's having financed its operations through the sale of participation certificates and certificates of beneficial interest and for Eximbank's having made certain relatively low-interest-rate loans, all in furtherance of national policy.

EXPORT-IMPORT BANK OF THE UNITED STATES

As a result of GAO's work, Eximbank and the Department of the Treasury, during the latter part of fiscal year 1970, entered into a new agreement with regard to the low-interest borrowing from the Treasury. Under the agreement such borrowings were tied in directly to the rates, terms, and amounts of outstanding balances of certain loans which Eximbank stated that it had made at concessionary terms in the national interest. In view of the fact that the concessionary-interest-rate loans made by Eximbank yield less than the rate at which the Treasury is able to borrow funds, the Treasury still will be absorbing a part of the cost of Eximbank's concessionary-interest-rate loans. This cost will be buried in the interest cost on the national debt.

GAO believes that the full cost of all Eximbank activities, both that which it incurs in the national interest and that which it incurs in the ordinary course of its business, should be borne by Eximbank and should be reflected on any financial statements purporting to account for all of its operations. In GAO's opinion, moreover, the record is not clear concerning the purposes of the low-interest-rate loans which Eximbank officials claim were made in the national interest. GAO's examination of the resolutions of Eximbank's Board of Directors showed that the loans, although made for military equipment and services at less than Eximbank's going interest rates, had been approved on the basis that they would facilitate U.S. exports and had been charged against the authority provided by the Congress to Eximbank to make loans to finance and to facilitate the making of U.S. exports.

GAO continues to believe, therefore, that, if Eximbank were charged the current average Treasury borrowing rate on all its loans from the Treasury, a more accurate measurement of the Government's cost of carrying out Eximbank's activities, both its normal export activities and those it takes in the national interest, would result.

Therefore GAO recommended in its report that the Secretary of the Treasury and the President of Eximbank renegotiate the agreement concerning concessionary interest rates charged Eximbank on certain Treasury borrowing so that the interest rates charged will approximate the current average borrowing costs paid by Treasury.

Moreover, so that the Congress may be fully informed of all Eximbank's activities, GAO recommended that Eximbank fully document and describe in its annual reports to the Congress any activities it performs in the national interest that it would not perform in the ordinary course of its business. GAO also believes that Eximbank's annual financial statements would be more informative if the financial results of such activities were disclosed separately on Eximbank's annual financial statements. (B-114823, June 21, 1971.)

NATIONAL SCIENCE FOUNDATION

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NATIONAL SCIENCE FOUNDATION

Need for improved administration of Federal support of shore facilities for research activities at oceanographic institutions

In a September 1970 report on a review of the administration of Federal support of shore facilities and vessels for oceanographic research activities at oceanographic institutions by the National Science Foundation (NSF) and the Department of the Navy, the General Accounting Office (GAO) expressed the opinion that the administration of such support could be improved. Specifically the following matters were pointed out as warranting management's attention.

Coordination of Federal support of research vessel operations

In fiscal year 1969 NSF provided through grants $8.6 million for the support of 32 research vessels and other vessels operated or chartered by 18 universitities and other nonprofit research institutions. NSF's level of support in recent years has been slightly in excess of 50 percent of the total cost of operating these vessels. The Office of Naval Research (ONR) has provided about 40 percent, and the remaining support has been provided by other Federal agencies and by State and local sources. NSF generally provides the difference between the institutions' total estimated costs of research vessel operations and that part of the costs that the institutions expect to be financed by others.

The Federal agencies, which provide funds principally on the basis of the needs presented by the individual institutions, have not formally coordinated their financial support to meet the overall objectives of the national oceanographic program. Although NSF has taken into account the anticipated funding by other Federal agencies, it has not jointly participated with these agencies in planning for the most desirable use of the available funds for the support of vessel operations and for the optimum use of the institutions' research vessels.

NSF and ONR officials agreed that coordinated support would be feasible and desirable and would result in better funding and administrative practices between the two agencies. In GAO's opinion coordinated funding would also simplify administrative procedures at the grantee institutions by avoiding the uncertainty as to the amount of research vessel support funds to be received and would enable the institutions to plan for more effective utilization of their vessels.

NSF stated its belief that the only alternative to the present system of multiagency support would be single-agency funding with a transfer of funds from other agencies. Although single-agency funding would alleviate some of the administrative problems inherent in the present system, it would not eliminate the need for Federal agencies to formally coordinate their plans. NSF advised GAO that an NSF-Navy Coordinating Panel for Ship Operations, Construction, and Conversion had been established and was reviewing means for improved coordination for support of vessel operations.

NATIONAL SCIENCE FOUNDATION

Construction and conversion of oceanographic research vessels

During fiscal years 1960-69, NSF provided grant funds of over $16 million for the design and procurement of 28 oceanographic research vessels for use by educational and other nonprofit institutions. A GAO review showed that opportunities existed for more economical use of NSF grant funds for the design, construction, conversion, or modification of oceanographic research vessels by (1) developing long-range plans in cooperation with ONR, which also finances the construction or conversion of research vessels for the same institutions, (2) requiring feasibility studies as a basis for deciding whether to construct new vessels or to convert old ones, and (3) making greater use of existing expert services of other Federal agencies specializing in the design and procurement of research vessels.

NSF's annual budget submissions to the Congress requesting funds for the procurement of oceanographic research vessels have not been based upon long-range plans of action. Rather NSF has estimated the funds needed on the basis of proposals received and expected to be received from grant applicants. The decisions as to which institutions would be awarded grants for the procurement of research vessels have been made on the basis of those institutional proposals deemed most worthy of support after funds have been appropriated by the Congress.

GAO believes that the development of a long-range plan for the procurement of research vessels is desirable because (1) the success of a national oceanography program requires the availability of a fleet of modern research vessels, (2) significant amounts of funds are involved, (3) a long lead time is required to construct or convert a vessel, (4) the needs and capabilities of grantee institutions during the anticipated useful lives of the vessels must be considered, and (5) the research programs of other Federal agencies generally depend on the use of research vessels acquired with NSF grant funds.

In contrast to NSF, ONR maintains a 5-year plan for research vessel construction which identifies the recipient institutions and shows whether the vessels are replacements or new additions. NSF and ONR had no procedure, however, for formal coordination of plans for construction of new research vessels or replacement of existing ones.

Regarding the matter of conversion versus construction of vessels, studies conducted by the Interagency Committee on Oceanography of the Federal Council for Science and Technology have shown that the conversion of old vessels to oceanographic research vessels is, in the long run, both uneconomical and inefficient. A study by the Committee's Ships Panel concluded that, although certain immediate gains, such as lower initial costs and earlier availability, might be derived from the use of converted vessels, such use in any long-range program was entirely unwarranted and recommended that Federal support be restricted to financing the construction of new vessels.

NATIONAL SCIENCE FOUNDATION

In the majority of cases, NSF's grants were for the conversion or modification of military or other ships into research vessels. NSF, however, did not make, or require the institutions to make, feasibility studies to determine whether converted vessels or new vessels would best serve the interests of a particular oceanographic institution and would accomplish the objectives of the oceanographic program within available funds. Also NSF did not make long-range plans for the orderly replacement of the converted vessels.

It would be desirable for NSF to avail itself of existing Government expertise in shipbuilding because NSF does not have the in-house technical capability to advise and assist grantee institutions and to fully protect the interests of the Government. The Maritime Administration, the Naval Ship Systems Command, and the Coast Guard have in-house capabilities for handling all aspects of shipbuilding, including designing, soliciting bids for construction or conversion contracts, contracting, inspecting, and accepting delivery of a vessel.

GAO was informed that NSF and the Department of the Navy had taken steps to coordinate long-range plans for financing vessel construction and conversion, that NSF would conduct feasibility studies to determine whether construction or conversion of research vessels was best, and that NSF was now using the shipbuilding services of other Federal agencies.

Title to research vessels

NSF and ONR provide research vessels to oceanographic institutions on differing bases. ONR, as a matter of policy, retains title to the vessels, whereas NSF, in line with its general policy, conveys title to the vessels to grantee institutions, subject to the Government's right to reclaim the vessels when a national emergency arises or when the vessels no longer are used by the institutions for oceanographic research. Because of NSF's policy of transferring title to the grantee institutions, the premiums for hull insurance on the vessels are borne by the Federal agencies which finance the operating costs of the vessels.

GAO estimated that, during calendar years 1963-67, hull insurance costing about $550,000 was purchased for 10 research vessels for which NSF had financed all or substantially all the construction or conversion costs. The cost of this insurance was borne for the most part by Federal agencies. If NSF had retained title to the vessels for which it had financed all or substantially all the construction or conversion costs, the purchase of hull insurance could have been avoided under the Government's policy of self-insurance.

Because this matter involves oceanographic research activities financed by several Federal agencies, GAO recommended that the Director, NSF, as a member of the National Council on Marine Resources and Engineering Development and the Federal Council for Science and Technology, present the question of ownership of research vessels to these coordinating bodies for consideration in establishing an appropriate Government policy regarding title to oceanographic research vessels purchased with Federal funds. The Director concurred with the recommendation and stated that NSF was taking the steps necessary to implement it. (B-169941, Sept. 23, 1970.)

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OFFICE OF ECONOMIC OPPORTUNITY

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OFFICE OF ECONOMIC OPPORTUNITY

COMMUNITY ACTION PROGRAM

Progress being made and difficulties being encountered by credit unions serving low-income persons

The General Accounting Office (GAO) reported in June 1971 on a review to evaluate the (1) progress made by the credit unions financed by the Office of Economic Opportunity (OEO) in becoming self-supporting, (2) benefits provided to low-income participants of the credit union program, and (3) results of financial operations of the credit unions. The review covered the activities of eight of the 125 OEO-financed credit unions.

GAO reported that the principal benefits that low-income persons received from the OEO-financed credit unions were the availability of (1) depositories for their savings and (2) loans that they otherwise might not have obtained or loans at lower interest rates than those available from other sources.

At December 31, 1969, the 106 federally chartered OEO-financed credit unions had 65,900 members; $4.2 million in members' deposits; and 18,200 loans, totaling $4.2 million, outstanding. From inception the credit unions had made loans totaling $14.2 million. Comparable data was not readily available for the 19 State-chartered credit unions.

The eight credit unions had encountered a number of problems in their operations that resulted in relatively high operating deficits and in little success in attaining OEO's goal of becoming self-supporting.

The results of financial operations of the eight OEO-financed credit unions showed that, from the beginning of OEO financing to December 1969, they had incurred expenses which exceeded operating revenues by $500,000 and that the deficits had been offset by grants from OEO amounting to $565,000. The credit unions will have difficulties in achieving a break-even position, even with a substantial increase in loans, unless their operating expenses are reduced.

The credit unions did not have sufficient shareholder deposits, the primary source of funds for making loans, for loans to generate interest income adequate to cover operating expenses. OEO has provided grants to credit unions for operating expenses which have offset their operating deficits for periods longer than the 1 or 2 years anticipated by OEO guidelines.

The total salary costs and the number of paid full-time employees of the eight credit unions were higher than those of other Federal credit unions of comparable size.

Seven of the eight credit unions experienced higher costs for space occupied--rent, utilities, and maintenance--than other Federal credit unions of similar size, primarily because most of them paid rent for space

COMMUNITY ACTION PROGRAM (continued)

whereas many other credit unions which were not OEO financed were provided with space free of charge or at relatively low rentals.

GAO reported further that neither OEO nor CUNA International, Inc., an OEO contractor responsible for certain administrative functions, had required the OEO-financed credit unions to develop plans showing projections of their financial operations or target dates for achieving the goal of becoming self-supporting. The establishment of such a target date and its comparison with each credit union's progress toward meeting that goal would enable OEO and the credit union to determine whether the credit union's progress was adequate.

OEO and the National Credit Union Administration agreed with GAO's conclusions and with its recommendations for strengthening the program. OEO stated that it intended to obtain status reports, plans, and projections bearing on the goal of self-support of credit unions; to review the operations of the credit unions and to provide necessary guidance and assistance; and to require them to concentrate their efforts on cost reductions. (B-164031(4), June 17, 1971.)

OFFICE OF ECONOMIC OPPORTUNITY

RESEARCH AND PILOT PROGRAMS

Improvements needed in management of projects to develop business opportunities for the poor

In July 1971 GAO reported on a review of certain research and pilot projects funded by OEO. The projects were designed to test new approaches to overcome special poverty problems or to further urban and rural Community Action Programs. GAO reviewed six economic development pilot projects located in Alabama, California, Ohio, and Texas which were funded at about $3.7 million and reviewed 23 pilot projects at OEO headquarters which were randomly selected from a total of 136 projects funded in fiscal year 1969.

GAO reported that the six projects had had limited success in achieving their objectives and in demonstrating workable approaches to solving the problems involved. The projects' lack of managerial competence was one of the most critical problems in establishing minority-owned businesses or other business ventures to be operated by the poor.

Other problems involving one or more of the projects included inadequate evaluations of the practicability of projects prior to funding, the establishment of goals that were unrealistic in view of the amount of funds and the period of time available under the grant, inadequate organization, disagreements on program objectives, and lack of full implementation of work plans by projects. The general downturn in the economy during fiscal year 1970 also may have hampered some projects from achieving their stated objectives. In addition, the resources of private enterprise were not sufficiently involved in carrying out the six pilot projects nor were the resources of other Federal agencies sought to the fullest extent available.

Expenditures totaling about $200,000 for four of the six projects were questionable. Improvements were needed in the accounting procedures and internal controls for five of the six projects to provide greater assurance that grant funds were expended in compliance with OEO requirements.

There were weaknesses in OEO's general management of pilot projects. GAO found that adequate instructions, guidelines, and procedures had not been issued; most project managers did not have business backgrounds; projects did not always report on their operations; project operations were not adequately monitored and evaluated; and project results were not determined and disseminated.

OEO stated that GAO's report accurately presented OEO's management of economic development pilot projects and that it would be helpful in improving the projects and their management. OEO agreed with the recommendations in the report and stated that it would take the steps necessary to implement them. (B-130515, July 20, 1971.)

OFFICE OF ECONOMIC OPPORTUNITY

COMPREHENSIVE HEALTH SERVICES PROGRAM

Opportunities for improving Neighborhood Health Services program for the poor administered by St. Luke's Hospital Center, New York City

In June 1971 GAO reported that the Neighborhood Health Services program, a project administered by St. Luke's Hospital Center in New York City and financed with grants totaling about $5.2 million from OEO had not yet provided a significantly better health care delivery system than that which previously existed.

GAO reported that:

--The amount of space available to the project limited the range of services which could be offered at the project site. A formal agreement for use of the space had not been signed with the city.

--The relatively low average number of patients seen by project physicians and dentists indicated that the project was not making maximum use of available professional staff members. OEO guidelines suggest that, with adequate space, a physician should treat 28 patients and a dentist should treat 14 patients a day; however, project physicians averaged only 9.5 patients and project dentists 5.7 patients a day for an 8-month period ended February 28, 1970.

--Although patients generally were treated by the same physicians when they visited the project site for medical care, such continuity was often lost when patients were admitted to St. Luke's Hospital for inpatient care because half the project's physicians did not have hospital privileges at St. Luke's.

--The project generally provided individually oriented health care, rather than family-oriented health care as required in OEO guidelines.

--The project had made some progress in implementing a program to provide comprehensive health care, including preventive care; however, additional efforts and space would be necessary for the project to fully implement such a program.

--The project made free medical services available, in some instances, to persons who did not meet OEO eligibility criteria.

To alleviate these problems, GAO recommended that the Director, OEO, request that project officials complete negotiations with the city for additional clinic space or locate alternative space, secure hospital privileges at St. Luke's for all project physicians, implement procedures to provide family-oriented rather than individually oriented services, and expand preventive health care services. GAO recommended also that the Director review the project's professional staffing organization to determine

COMPREHENSIVE HEALTH SERVICES PROGRAM (continued)

what actions would be necessary to increase its productivity and to require that the project strengthen its controls over eligibility determinations.

In commenting on these recommendations, the Deputy Director of OEO acknowledged that improvements were needed in the project's administration and stated that progress had already been made or planned in all areas cited. Project officials informed OEO in January 1971 that all project physicians had clinical appointments and all pediatricians had attending status at St. Luke's. In addition, a team approach intended to provide family-oriented rather than individually oriented services was initiated on a test basis in January. (B-130515, June 15, 1971.)

Opportunities for improving Southern Monterey County Rural Health Project, King City, California

In July 1971 GAO reported on a review to determine (1) the extent to which the objectives of the Comprehensive Health Services Program were being met and (2) how efficiently the program was being administered. The review covered the Southern Monterey County Rural Health Project in King City which was financed with grants totaling about $4.5 million from OEO.

GAO reported that the individuals and families enrolled in the project generally were satisfied with the services provided to them but that the project's value would be enhanced if it were to:

--Offer a more comprehensive range of services.

--Give its enrollees a greater opportunity to participate in the project's development and operation.

--Gain the support of area residents not enrolled in the project.

--Devote more effort to developing a means for measuring its long-range impact on the health and economic status of its enrollees.

GAO reported also that:

--The project's organizational structure needed to be changed because it did not provide controls necessary to ensure that project activities would be conducted effectively, efficiently, and free of potential personal and financial conflicts of interest. Changes made in the project's organizational structure, including the establishment of a new administering agency in October 1970, should provide better control and reduce the possibility of conflicts of interest.

--The project needed to (1) give more emphasis to providing, and encouraging its enrollees to seek, preventive medical care, (2) maintain more adequate records of such care, and (3) undertake efforts to

COMPREHENSIVE HEALTH SERVICES PROGRAM (continued)

improve the environmental conditions which contributed to the enrollees' health problems.

--Outreach services could be more effective if the project were to overcome the medical group physicians' reluctance to involve nonprofessional home health aides in the program and if the project were to attract a sufficient number of public health nurses to staff the program. Subsequently the project installed a referral and follow-up system which, if made to work effectively, could improve the outreach program.

--Project officials would be able to manage the project and assess its progress better if necessary operational data, adequate evaluations of the quality of medical care provided, and the effectiveness of other aspects of the project were available. Action was being taken to install a new information system which should assist in accumulating financial and operational data; however, systematic procedures for evaluating project effectiveness and reporting the results of such evaluations to management had not been developed.

--The project needed to (1) strengthen its policies and procedures for determining eligibility for medical services, (2) utilize all available county health services, particularly the county hospital, and (3) seek out and claim all reimbursements available from established health programs, such as Medicaid and Medicare, and from other funding sources, such as the county and insurance companies.

--The project paid the medical group between $37,500 and $50,000 more than it should have because the medical group had billed the project at erroneous rates and because billings submitted by the medical group at the physicians' usual fees had been increased by project employees to higher rates.

--Through February 1970 the medical society authorized and the project made payments of $98,350 to the medical group without OEO authorization and on a basis other than the OEO-approved, fee-for-service basis.

GAO made several recommendations to the Secretary, the Department of Health, Education, and Welfare (HEW), to improve these conditions. GAO recommended also that the Secretary stress to the project its responsibility to make maximum feasible use of existing agencies and resources, including the county hospital.

HEW stated that GAO's recommendations for changes were well taken, that it would continue efforts to correct the deficiencies, and that it would provide assistance to strengthen all aspects of the project.

OEO indicated agreement with all but one of the recommendations--that of using the county hospital whenever appropriate--and described actions

COMPREHENSIVE HEALTH SERVICES PROGRAM (continued)

taken to improve some of the activities reported on. OEO stated that the use of available hospitals must be considered in the light of individual cases and prevailing conditions but that efforts had been made to further the use of the county hospital. (B-130515, July 6, 1971.)

OFFICE OF ECONOMIC OPPORTUNITY

SPECIAL IMPACT PROGRAM

Development of minority businesses and employment in the Hough area of Cleveland, Ohio

In August 1971 GAO reported on its review of the Special Impact Program conducted by the Hough Area Development Corporation in Cleveland and financed with grants from OEO totaling $5.13 million through October 1972. The purpose of the Special Impact Program is to offer the poor an opportunity to become independent and self-supporting through the use of the free enterprise system.

GAO's review sought to determine the impact of the program in the Hough community, its prospects for meeting its goals, the actions necessary to attain the goals, and how well the program was being managed.

GAO reported that, after 2-1/2 years of Federal funding, the Special Impact Program had brought few visible benefits to Hough. Considering Hough's deep-seated problems of unemployment, poor housing, and high crime rate, however, it would be unrealistic to expect a major social and economic impact in such a short time. Comments on the various projects carried out by Hough Development follow.

Shopping center and housing development

One of Hough Development's major efforts is a combination shopping center and housing development. Although construction originally was scheduled to begin in August 1968, only site-grading work had begun as of May 1971. The original date was overly optimistic and reflected a lack of understanding of the complex problems involved--securing tenants, acquiring land, and obtaining financing.

Franchise restaurants

Hough Development purchased franchises for two McDonald's restaurants to help lessen community tensions. Through December 1970 one franchise was showing a profit but the other was showing a slight cumulative loss.

Loan assistance

Hough Development also assisted black contractors and businessmen in obtaining needed funds through the Contractor Loan Guarantee Program--established by Hough Development--which was unsuccessful in achieving certain key objectives and through the Small Business Loan Program, which has not had the intended impact. Six black contractors who had obtained loans from a bank under the loan guarantee program defaulted on their loans and, as a result, were no closer to being able to obtain bank loans, without guarantees. The intent of the Small Business Loan Program was to provide seed money to enable firms to obtain larger bank loans; however, most of the loans were made to meet borrowers' needs.

SPECIAL IMPACT PROGRAM (continued)

Other projects

Community Products, Inc., a rubber parts manufacturing company, and Handyman's Maintenance Service, Inc., a custodial and maintenance service, operated at a loss from the time they began operations. As a result of recent changes, however, their financial conditions improved. Although OEO objected to financing the Handyman project, except to the extent of $22,000, Hough Development used $110,400 of Special Impact Program funds during 1969 to finance Handyman's operations. OEO still had not approved the project for funding in March 1971.

Hough Development plans to turn over ownership of the businesses started under the Special Impact Program to Hough residents when the businesses become profitable. If the various businesses reach their full potential, it is conceivable that, until ownership is turned over to Hough residents, Hough Development could become a holding company for businesses worth millions of dollars.

Project management

On three projects Hough Development used impact funds of about $114,000 in excess of the amounts authorized by OEO, although OEO subsequently approved the funds' use for two of the projects. OEO advised GAO that the entire system of releasing funds for the program had been revised to minimize unapproved expenditures.

GAO recommended that OEO:

--Require Hough Development to submit to OEO, within a specific time period, a detailed plan showing how ownership of existing businesses assisted by the Special Impact Program would be distributed to Hough residents and/or the planned use for funds derived from ownership retained within Hough Development and, for future projects, require Hough Development to submit such plans as a condition for project approval.

--Work with Hough Development and the Federal and local agencies involved to ensure the successful completion of the shopping center and housing development because of the tremendous impact the project can have on the Hough community and in renewing confidence in Hough Development.

--Carefully monitor, with Hough Development, future operations of Community Products, Inc., to ascertain the impact of changes that were initiated by company management as well as the possible need for further changes.

--Evaluate the Handyman project and decide whether to approve it for funding.

SPECIAL IMPACT PROGRAM (continued)

OEO indicated that it agreed generally with GAO's recommendations and stated that measures would be taken in accordance with them. Hough Development leaders have shown a willingness to recognize their errors and have attempted to correct them. (B-130515, Aug. 17, 1971.)

OFFICE OF MANAGEMENT AND BUDGET

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OFFICE OF MANAGEMENT AND BUDGET

Need to reexamine policies governing establishment of fees by regulatory agencies

In view of expressed concern that the Government was not receiving sufficient return for all the services rendered to special beneficiaries by certain regulatory agencies, the General Accounting Office (GAO) undertook to determine how effectively the agencies were implementing the law in that regard.

Title V of the Independent Offices Appropriation Act, 1952, provides that Government activities resulting in special benefits or privileges for individuals or organizations be financially self-sustaining to the fullest extent possible; that regulations prescribing fees be as nearly uniform as practicable; and that fees be fair and equitable, taking into consideration direct and indirect costs to the Government, value to the recipient, public policy or interest served, and other pertinent facts.

The Bureau of the Budget (now the Office of Management and Budget) issued policy guidance (Circular No. A-25) to agencies for implementing those requirements. The circular broadly defines services that provide special benefits and establishes guidelines on the types of costs to be considered in setting fees and charges.

GAO found that the fee policies of seven regulatory agencies--Civil Aeronautics Board (CAB), Federal Communications Commission (FCC), Federal Maritime Commission, Federal Power Commission (FPC), Federal Trade Commission, Interstate Commerce Commission (ICC), and Securities and Exchange Commission (SEC)--were not as uniform as practicable, did not take all costs to the Government into consideration in determining the amounts of assessments, and did not provide for fees to be charged in all appropriate instances.

Subsequent to GAO's review, five agencies--FCC, ICC, CAB, FPC, and SEC--took steps to change their fee schedules. Because actions taken by the agencies individually may not result in the uniformity intended by the law, however, GAO recommended that the Office of Management and Budget reexamine (1) the policies and practices of the regulatory agencies in establishing their fees and (2) the language of Circular No. A-25 to determine whether it provided adequate guidance to the agencies in implementing title V of the Independent Offices Appropriation Act of 1952.

The Office of Management and Budget agreed generally with GAO's conclusions and recommendations and said that it would conduct a broad review of user-charge policies. (B-145252, Oct. 23, 1970.)

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SMALL BUSINESS ADMINISTRATION

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SMALL BUSINESS ADMINISTRATION

Need to initiate administrative hearings and impose fines to enforce small business investment company regulations

The Small Business Administration (SBA) is authorized to hold administrative hearings on activities of small business investment companies (SBICs) which are suspected of violating the Small Business Investment Act or regulations. If violations exist SBA may issue an order to cease and desist from such activities or it may suspend or revoke the SBIC's license. SBA, however, has not held hearings as a means of enforcing compliance with the act or the regulations since 1966.

SBA is authorized to impose fines against SBICs for the nonfiling and late filing of required reports. Nonfiling and late filing ceased to be a problem after SBA received this authority.

The General Accounting Office (GAO) believes that judicious use of administrative hearings, coupled with the authority to impose fines for the lack of corrective action, should result in more timely correction of violations and, if effectively utilized, should discourage SBICs from committing violations of the act or the regulations.

GAO therefore recommended that the Congress consider the feasibility of providing SBA with the legislative authority to impose fines against SBICs which fail to correct violations when directed to do so by SBA. SBA personnel responsible for enforcement of the regulations expressed the belief that such authority would be effective in obtaining correction of violations. (B-149685, July 21, 1971.)

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U.S. POSTAL SERVICE

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U.S. POSTAL SERVICE

The following items are based on reviews of activities of the Post Office Department prior to commencement of operations of the U.S. Postal Service on July 1, 1971. These matters continued to be of significance in the operations of the Postal Service.

Postal Source Data System should be evaluated and improved before further expansion

In 1966 the Post Office Department embarked on a multimillion-dollar program to install the Postal Source Data System, an automated data collection and processing system, to provide postal management with more timely and useful information than was possible under manual data systems. The system was to be fully operational in 75 of the largest post offices in the continental United States by November 1968. The Department estimated that the total cost of the system, when fully installed, would be $30.2 million and predicted savings averaging $7.2 million annually during each of the first 5 years of the system's operation. The Department subsequently decided to expand the system to include at least 35 other large post offices.

The General Accounting Office (GAO) found that:

--As of November 30, 1970, a fully operational system had not been implemented at nine of the initial 75 post offices, although more than 2 years had passed beyond the original November 1968 target date.

--Acquisition costs incurred by the Department totaled $60.5 million by February 1971. Of this amount, at least $44.5 million was attributable to the initially planned 75 installations--an increase of $14.3 million, or 47 percent over the Department's estimated costs of $30.2 million for these post offices.

--The predicted savings may not be realized.

--Reports produced by the system at the time of GAO's review were less useful to postal management than reports available prior to installation of the system.

Most of the deficiencies and the increased costs resulted from inadequate study and insufficient testing of this complex data collection and processing system prior to nationwide installation.

GAO recommended that the Postmaster General suspend the expansion program pending a comprehensive evaluation and cost-benefit study and that, pending the outcome of the study, he curtail the procurement of equipment and software for the system and keep operational costs to a minimum.

In September 1970 the Postmaster General stated that he concurred generally with GAO's proposal except that he believed a limited further expansion to the 110 post offices had to be completed to avoid further adverse effects. It was GAO's belief, however, that the expansion of the system to any additional post offices, when its effectiveness and economy had not been demonstrated at the facilities where it had been installed,

would not be a judicious investment of Department funds. (B-114874, July 1, 1971.)

Unrecovered costs in providing address correction service to postal patrons

Of the costs incurred by the Post Office Department for providing address correction service to postal patrons in fiscal year 1969, at least $2.8 million was not recovered from users of this service. The service consists of sending a notice of address change to the sender of any piece of mail undeliverable as addressed, if the new address is known by the post office.

The Postmaster General concurred in GAO's proposal that the Department make a cost study to ascertain the fee that should be charged to recover the full costs of this service. The Department's study, completed in August 1970, indicated that an increase in the fee from 10 cents to 25 cents would be required to recover direct labor costs traceable to this service. The fee had not been increased, however, as of August 1971. (B-114874, May 22, 1970.)

Postage due and handling costs for processing mail with insufficient postage are not being recovered

The Postmaster General is required by law to collect postage due for mail without sufficient prepaid postage and to recover the cost of handling such mail. He may waiver the handling charge, however, when he deems it to be in the interest of the Government.

The handling charge has been waived since August 1958. Also some mail with insufficient postage was not being detected by the Department. The Department had not prescribed effective methods and responsibilities for detecting mail with insufficient postage. If the conditions noted in 13 postal facilities covered by GAO's review were typical, the Department was incurring significant losses nationwide.

GAO made several recommendations designed to help solve this problem, including a recommendation that the Department return mail with insufficient postage to senders rather than forward such mail to the addressees.

The Postmaster General said that, to better appraise the problem and the solutions available to the Department, a cost-benefit analysis would be made and that this analysis would generally recognize GAO's recommendations. The Department made a preliminary study of this matter which confirmed GAO's findings. As of August 1971, however, the Postal Service had not implemented a handling charge to recover the additional costs incurred to detect and collect postage due for mail with insufficient postage. (B-161568, Mar. 31, 1971.)

VETERANS ADMINISTRATION

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VETERANS ADMINISTRATION

Opportunities for improving automated supply system of Veterans Administration

The Veterans Administration (VA) is developing and using an automated supply system, called LOG I, to control the procurement, storage, and distribution of supplies for the 166 VA hospitals. Planning for the LOG I system began in 1963. The first two segments of the plan, cataloging of supply items and processing of supply transactions at the three VA depots, have been completed. The third segment, processing of supply transactions for posted supply items (supplies required on a recurring basis) at VA hospitals, is in the development stage.

In a report dated July 7, 1971, the General Accounting Office (GAO) expressed the opinion that significant savings could be achieved through further automation and expansion of the scope of LOG I. The amount of such savings was difficult to estimate, however, because the capability of a further automated system had not been determined.

The design of the hospital supply segment of LOG I is relatively narrow in scope. As a result the system depends, to a large extent, on persons to perform many of the processes that otherwise could be automated. The hospital supply segment of LOG I functions on a "pull" concept, that is, each hospital determines stocks needed and then requisitions, or purchases, required quantities from supply sources. Certain VA hospitals had excess inventories because the hospitals were disregarding recommended stockage criteria and were pulling stock in excess of their requirements.

VA could better use its computer capabilities by changing LOG I from a pull system to a "push" system, which would use the computer to automatically direct, or push, supplies to hospitals in the quantities needed to maintain stocks at predetermined levels. A push system would result in (1) faster responses to hospitals' supply needs, (2) savings in administrative costs, and (3) reductions in supply inventories and associated inventory management costs.

GAO recommended that, upon installation of LOG I, VA test an automatic replenishment, or push, system to determine the number of supply items that could be processed by such a system and to identify the administrative functions which could be eliminated. The test should include an expansion of the scope of LOG I to include more supply items.

VA agreed that automatic replenishment could result in savings but had reservations regarding the extent to which the supply system could be converted to automatic replenishment, because medical supply was not a static operation and required human intervention to accommodate new therapeutic techniques. VA agreed, however, to begin a programmed testing of automatic stock replenishment as soon as the LOG I system was operating.

GAO recognized that medical supply requirements change and therefore expressed the belief that an automatic replenishment system should include an exception feature to avoid stock shortages or the accumulation of obsolete

supply items. The frequency of these instances could be determined by VA's planned test. (B-133044, July 7, 1971.)

Opportunity to reduce costs and improve service to veterans receiving educational benefits

VA provides financial assistance to veterans while they are obtaining an education. In fiscal year 1970 VA paid $1 billion in educational benefits to about 1.3 million veterans. GAO reviewed VA's practices and procedures for processing veterans' status documents--the basis for payment of educational benefits--because of indications that processing delays had resulted in late payments and overpayments or underpayments.

In a July 1971 report GAO expressed the belief that VA could accelerate the processing of status documents and could reduce the possibility of overpayments and underpayments by eliminating the regional office manual verification of data on veterans' status documents with identical data in the veterans' case files and by placing greater reliance on the capability of its automatic data processing equipment to perform this function. GAO estimated that placing greater reliance on computer verification of data from status documents would also result in net savings in operating costs of about $500,000 annually. To achieve such savings it would be necessary for VA to incur one-time computer reprogramming costs of $72,000.

GAO recommended that VA implement procedures whereby its regional offices would, whenever possible, forward all data from status documents to the data processing center to be processed without referral to the case files.

VA agreed, in principle, with GAO's recommendation and said that procedures for automating the processing of status documents which concern reenrollment in the educational assistance program had been implemented in 1970 and were being refined. VA said that it also planned to further automate the processing of other status documents as soon as reasonably possible. (B-114859, July 8, 1971.)

VARIOUS DEPARTMENTS AND AGENCIES

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VARIOUS DEPARTMENTS AND AGENCIES

(Department of Agriculture and Department of the Interior)

Problems related to restricting use of motorized equipment in wilderness and similar areas

In an October 1970 report, the General Accounting Office (GAO) recommended that the Congress consider providing further guidance to the Forest Service, Department of Agriculture, and the National Park Service, Department of the Interior, concerning the use of motorized equipment in administering over 9 million acres of wilderness and similar areas designated by the Wilderness Act of 1964.

The act provides that motorized equipment not be used in wilderness areas except as necessary to meet minimum requirements for the administration of the areas for the purpose of the act. The Forest Service has determined that, to preserve and protect the areas, a significant amount of trail construction, bridge construction, trash and litter cleanup, and other work is necessary, but it has restricted the use of motorized equipment in carrying out these activities. Hand tools (including some portable power tools), pack animals, and backpackers generally are used instead.

These severe limitations on using motorized equipment result in additional costs and create problems in preserving and protecting the areas. For example, the estimated $100 million cost of planned construction and reconstruction of 18,000 miles of trails in wilderness and similar areas in three Forest Service regions could be reduced, possibly by one half, if the use of small trail machines especially designed for such work were allowed.

The Forest Service also restricts the use of (1) power saws for maintaining trails, (2) helicopters for removing accumulated trash and litter, transporting equipment and materials for the construction of trail bridges, and inspecting and repairing reservoirs, and (3) compacting equipment for repairing reservoirs.

The National Park Service also could realize significant savings by using small trail machines in areas it manages under the wilderness concept. The National Park Service planned to construct about 2,000 miles of trails in areas where the use of motorized equipment is limited.

GAO recognizes that motorized equipment is not compatible with the ideal wilderness concept but believes that the construction of trails, bridges, and other facilities and the presence of litter left in the areas by users also are basically inconsistent with the ideal wilderness concept. Once decisions have been made to construct such facilities and to dispose of accumulated litter, GAO believes that economy and convenience should be considered, along with other factors, in deciding when to use motorized equipment.

Because the Forest Service and the National Park Service believed that their restrictions were consistent with the intent of the Wilderness Act, GAO recommended that the Congress give consideration to providing further

(Department of Agriculture and Department of the Interior) (continued)

guidance on the use of motorized equipment in wilderness and similar areas. Congressional consideration to providing further guidance on the use of motorized equipment seems particularly desirable in view of Forest Service statements that current funds fall considerably short of overall forest program needs and that significant increases are anticipated in the use of wilderness and similar areas by the public. (B-125053, Oct. 29, 1970.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Commerce and Department of Labor)

More reliable data needed as a basis for providing Federal assistance to economically distressed areas

The General Accounting Office (GAO) reported that the statistical data on unemployment and income used by the Economic Development Administration (EDA), Department of Commerce, for determining an area's eligibility for assistance as an economically distressed area were not current and were of questionable accuracy. The questionable accuracy of the unemployment data was attributable to conceptual weaknesses in the methodology for estimating unemployment as well as to problems in developing unemployment rates for small areas. Also, median family income data for States and local areas, used in determining eligibility, are available only from census information gathered once every 10 years.

EDA's ability to properly identify areas eligible for assistance hinges on the soundness of unemployment and income data. Also the designation of economic distress may influence the distribution of monies and benefits from other Federal agencies.

GAO reported also that, because current family income data are not available, EDA is not able to make the annual review of area eligibility on the basis of income as is required by the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3121), or to base its determinations of maximum grant rates on recent data. GAO concluded that unemployment and income data should be improved to ensure realistic economic appraisals of local areas.

GAO believes that EDA should consider the feasibility of using per capita income data (developed by the Office of Business Economics, Department of Commerce) instead of median family income data as one means by which income levels could be measured more frequently than every 10 years. Any departure from the use of median family income data, however, will require a change in legislation.

GAO recommended that:

--The Secretary of Labor ascertain changes needed to improve unemployment estimates and to monitor States unemployment-estimating practices.

--The Secretary of Commerce study the problems associated with developing current unemployment and income data, consider the use of the more current per capita income data, and recommend changes in legislation as warranted.

The Department of Labor said that it would take steps to ensure the uniformity in the application of the prescribed techniques for estimating unemployment and to improve the accuracy and comparability of data. The Department also said that the improvements necessary in the methodology used in estimating unemployment would be made by the end of fiscal year 1971.

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Commerce and Department of Labor)

The Department of Commerce agreed, in principle, that it would be desirable to have more recent income data on a regular basis. By using data from other sources, such as the per capita income data published by the Office of Business Economics, EDA hopes to develop reasonably accurate income statistics. The Department stated also that a work group was studying per capita income data but that much remained to be done before the data could be used to measure area economic distress. (B-133182, May 10, 1971.)

VARIOUS DEPARTMENTS AND AGENCIES

(General Services Administration and Office of Management and Budget)

Potential savings by replacing Government-owned sedans each year

The Federal civil agencies had a domestic fleet of 37,000 sedans at the end of fiscal year 1969. The cost of operating the sedans during that year was $27.7 million, of which $17.8 million was related to the 22,500 sedans in the General Services Administration (GSA) interagency motor pools.

In June 1971 the General Accounting Office (GAO) reported that replacing GSA's sedans each year, rather than every 5 years as was being done, would save the Government an estimated $5.1 million annually because (1) maintenance, repair, and tire costs are lowest during the first year of ownership and (2) the discount obtained by the Government when it purchases sedans substantially offsets the depreciation factor during the first year of ownership.

GAO recommended that the Administrator of General Services, with the concurrence and cooperation of the Office of Management and Budget (OMB):

--Adopt a 1-year replacement standard for sedans in the interagency motor pools.

--Revise the Federal Property Management Regulations to require other Federal civil agencies to adopt a 1-year replacement standard for sedans.

--Examine into the feasibility of adopting a 1-year replacement standard for station wagons and light trucks in the civil fleet since they are purchased and operated under conditions similar to sedans.

Department of Defense vehicles are not subject to GSA replacement standards and were therefore excluded from the review. Because the findings may have application to these vehicles as well, GAO recommended that OMB examine into the feasibility of adopting a 1-year replacement standard for Department of Defense sedans, station wagons, and light trucks.

GSA agreed with GAO's proposals. OMB also agreed that a 1-year replacement cycle for GSA's sedans was optimal in the long run but plans to continue the current replacement cycle for the present time--primarily because of the impact of the additional capital investment on the overall Federal budget and the relative priority of other Federal projects. GAO expressed the belief that the payoff on the capital outlay would be significant and that the additional capital investment plus imputed interest would be recovered through annual savings in about 2 years. (B-158712, June 9, 1971.)

VARIOUS DEPARTMENTS AND AGENCIES

(General Services Administration and Office of Management and Budget)

Multiyear leasing and Government-wide purchasing of automatic data processing equipment should result in significant savings

GSA is responsible under Public Law 89-306 for carrying out a coordinated Government-wide program for the efficient and economical acquisition of general-purpose automatic data processing (ADP) equipment. GAO's review of progress under the program showed that the Government was not making maximum use of its ADP equipment purchase funds, primarily because agencies continued to make purchase decisions on the basis of their individual funding capabilities and needs.

Also, most of the Government's equipment was being obtained from system manufacturers under negotiated contracts through purchases or short-term leases. GAO estimated that agencies having short-term leases could have saved up to $155 million over a 5-year period if they had taken advantage of contracts that were, in effect, 1-year contracts containing options to renew or if they had authority to enter into multiyear leases.

GSA has an ADP fund to assist in carrying out its responsibilities for the efficient and economical acquisition of the Government's ADP equipment. The fund can be used when agencies are barred from entering into multiyear leases, as many of them are. But, unless GSA is given authority to contract on a multiyear basis without obligating the total anticipated payments at the time of entering into the leases, as is now required by law, the ADP fund would have to be substantially increased to realize the savings available through equipment purchases by GSA or through multiyear leasing.

GAO recommended that GSA ensure that the agencies obtain all possible benefits under their contracts, that the advantages of increasingly available competition be obtained both in purchasing and in leasing, that additional capital for purchasing equipment for other agencies' use be requested for GSA's ADP fund, and that GSA and the Office of Management and Budget ensure that purchases are made on the basis of the best buy for the Government as a whole rather than for the individual agencies.

GAO suggested that the Congress might wish to consider granting authority to GSA that would enable those agencies not otherwise able to do so to achieve the savings available from multiyear leasing instead of short-term leasing.

GSA and OMB agreed with GAO's findings and recommendations and took actions to implement them. A supplemental appropriation enacted in January 1971 provided $20 million additional to the ADP fund. GSA stated that proposed legislation was being drafted that would enable those agencies not otherwise able to do so to achieve, through the GSA fund, the savings available from multiyear leasing instead of short-term leasing. (B-115369, Apr. 30, 1971.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of the Treasury and Office of Management and Budget)

Opportunities for better use of United States-owned excess foreign currency in India

In January 1971 the General Accounting Office (GAO) reported to the Congress on the management of U.S.-owned Indian rupees. The review was undertaken to see if it would be practicable and beneficial to U.S. interests to make somewhat greater use of its rupee holdings. Such greater use has been recognized for many years by the executive branch and the Congress as a desirable goal.

GAO concluded that important political, economic, and legal factors limited the amount of U.S.-owned rupees that the United States could spend in India during any period. Administrative difficulties within the U.S. Government have also acted to restrain the level of excess currency spending. Governmental budgetary processes appeared to be a significant factor in limiting the use of excess foreign currency.

GAO concluded also that considerably greater amounts than are now being spent could be beneficially used within limits dictated by political, economic, and legal factors. For example the United States could use more of its rupees to acquire or replace office and residential facilities in India, expand distribution of a U.S. Information Agency publication in India, increase local travel for official purposes, and expand the educational exchange program.

GAO believes that the limits on U.S. rupee expenditures make it important to establish priorities for proposed uses of rupees, even though the amounts of U.S.-owned rupees seem almost limitless. GAO noted that it is important that justifications for specific uses continue to be subjected to careful scrutiny by the executive branch and by the Congress.

In some instances agencies are reluctant to use excess foreign currencies in lieu of dollars because the agencies have to exchange their appropriated dollars for excess foreign currencies and because this often results in a higher charge to their dollar appropriations. If the agencies were allowed to obtain excess foreign currency at preferential rates of exchange in such instances, there might be a greater incentive on the part of agencies to use excess foreign currencies.

GAO recommended that the Secretary of the Treasury establish more flexible procedures for valuing U.S.-owned Indian rupees in dollars in making sales to U.S. agencies to maximize the constructive use of the funds for U.S. programs in India without, at the same time, compromising congressional control over use of the funds. In essence this would give U.S. agencies more rupees for the same amount of dollars and, all other things being equal, would encourage greater use of the rupees.

VARIOUS DEPARTMENTS AND AGENCIES

(Department of the Treasury and Office of Management and Budget)

In commenting on this matter in April 1971, the Treasury Department stated that its staff was working on techniques that would allow U.S. agencies to procure certain commodities in India for their operations there that are comparable to those now being imported. With regard to certain other types of items, such as real estate and local national services, however, the Department stated that, where there is no clear way of determining a price differential with comparable goods and services that are traded internationally, any procedure established by the Treasury would have an arbitrary element in it and that this would, in turn, place the Treasury in the position of making determinations that would have important elements bearing on the congressional appropriation process.

GAO recommended that the Office of Management and Budget

--ensure that executive branch agencies seek approval for well-documented, excess-currency-funded projects without regard to overall dollar ceilings for the agencies and

--explore with appropriate committees of the Congress the acceptability of direct appropriations of foreign currency.

In commenting on a draft of the report in September 1970, the Office of Management and Budget stated:

> "We agree with the intent of your recommendation--to ensure that executive branch agencies can seek approval for well-documented excess currency-funded projects without regard to overall dollar ceilings. Office of Management and Budget Circular No. A-11 has been revised to clarify its long standing policy on this matter."

In commenting on the final report in March 1971, the Office of Management and Budget stated:

> "The second recommendation requests consultation with appropriate committees of the Congress on the acceptability of direct appropriations of excess foreign currency. Although this type of system was proposed by the President and rejected by the Congress on two previous occasions, we shall be happy to explore the possibility of current acceptance."

(B-146749, Jan. 29, 1971.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Defense and Department of State)

Problems in administration of military assistance training program

At the request of the Chairman of the Senate Committee on Foreign Relations, the General Accounting Office (GAO) made a detailed review of the military assistance training program in 10 recipient countries. In recent years the total funds provided for training foreign military personnel under the military assistance and service-funded programs have averaged about $74 million a year.

In assessing the training against the military requirements and resources of recipient countries, GAO observed that some of the training was unnecessary or not of high priority. For example, in Iran nearly one fourth of the $155,000 for 1970 Navy training was spent for postgraduate courses for four men. In two other countries training that was unrelated to equipment on hand was given at a cost of about $525,000.

GAO also noted that inadequate consideration had been given by the U.S. military advisors to the recipient countries' capabilities for providing training from their own resources and that no formal effort had been made by the advisors to correlate the military assistance or service-funded training programs with other U.S. Government training programs.

In the selection of foreign students being trained, GAO found that U.S. advisors had not taken the necessary steps to ensure that a sufficient number of qualified candidates were nominated, screened, and tested in time so that they would be available to attend scheduled training courses. As a result, some courses had to be canceled or deferred and marginally qualified and unqualified personnel entered into the training program.

GAO concluded that it was difficult to assess to what degree U.S. military assistance training had increased the effectiveness of forces in the recipient countries included in its review. The difficulty arose from the lack of established measurement criteria and a system for periodically evaluating the training program.

GAO suggested that a reexamination of the overall program, for which substantial costs were being incurred for training, was warranted and recommended the following alternatives for consideration: (1) concentrating more effort by U.S. advisors on planning, programming, administering, and supervising the training programs to achieve effective management or (2) reducing the size of the training program so that it can be effectively managed with presently authorized staffs.

GAO suggested also that the committees of the Congress might wish to consider the desirability of enacting legislation requiring the Secretary of Defense to establish a measurement system to assist in determining the effectiveness of expenditures for the military assistance training program.

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Defense and Department of State)

The Department of State commented on the subject report in a letter dated April 6, 1971, to the Comptroller General. GAO's analysis of the letter showed that the Department of State generally agreed with the information contained in GAO's report. For instance, the letter stated:

> "The report contains a wealth of information and data which will be extremely useful to us in our efforts to improve the effectiveness of our training program."

The Department took immediate and positive action in this regard by requiring all posts and stations to review the report and to take corrective action if necessary.

The Department of Defense commented on the report in a letter to the Comptroller General dated July 13, 1971. In general the Defense Department has taken a negative view of the information as provided in the report. For example, they stated:

> "The valid but limited criticisms that resulted from this review of military assistance training will be only of limited assistance in the management of the training program."

A 48-page attachment to the Department of Defense letter commented on specific aspects of the report. GAO is now in the process of analyzing these comments. (B-163582, Feb. 16, 1971.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of Defense, Department of State, and Agency for International Development)

Need to consider economic benefits regarding assistance to Indonesia

Economic benefits to be achieved by the United States as a result of U.S. assistance are not a prime consideration in the formulation of U.S. assistance policy. The changing complexion in comparative economic strengths of developed nations and their increased ability to provide assistance to less developed countries, however, suggests that more consideration should be given to this matter. This is brought into sharp focus when it is considered that relatively greater economic benefits will probably accrue to donor nations, other than the United States, as a result of Indonesia's development, notwithstanding the fact that the United States is, by far, the largest donor.

Basic United States policy has been to limit direct involvement in Indonesian affairs by providing most of its assistance through a consortium of donors formed in 1967. The United States provided $646 million of the $1,688 million in economic assistance committed by the consortium donors through March 1971. The United States provided also substantial aid outside the framework of the consortium (over $110 million in military and additional economic assistance through June 1970) and, together with the other creditor nations, has agreed to reschedule an excessive external debt which the present Government inherited from the former regime.

The General Accounting Office (GAO) reported that:

--The United States had increased its percentage share of multidonor assistance costs significantly above that anticipated (one third of the total bilateral requirements) when the consortium was formed.

--Whereas other assistance donors financed commodities which contributed to their long-range trade potential, a major share of U.S. assistance consisted of those types of assistance, such as readily consumable goods, which are much less attractive in terms of long-range trade advantages.

--U.S. products were noncompetitive in comparison with those of other donors. This was illustrated by the fact that, even though the terms of U.S. assistance loans were more liberal than those of other major donor countries, usage of the U.S. loans was slow.

In response to this matter, the Department of State and the Agency for International Development stated that they believed that the costs of providing assistance had been reasonable in terms of the objectives achieved. They stated that the Indonesian Government's ability to bring inflation under control in a few short years had not been matched elsewhere in the developing world.

They added that:

--The increased levels of aid to Indonesia, at a time when overall U.S. aid funding had not increased, accurately reflected the priority that the U.S. Government had attached to Indonesia's rehabilitation and development.

--GAO's views on long-range potential were essentially correct but expansion of U.S. exports was not the primary purpose of U.S. assistance. The agencies have expressed the belief, though, that some U.S. assistance has a favorable effect on long-term trade expansion.

--High U.S. prices, shipping time and costs, and procedural requirements all contributed to slow usage of U.S. assistance loans.

GAO believes that the issues raised are particularly pertinent at this time inasmuch as U.S. assistance to Indonesia is provided under a multilateral framework, heralded as the coming thing in foreign assistance. The Congress may thus wish to review these matters with the Department of State and the Agency for International Development. (B-172450, Sept. 7, 1971.)

VARIOUS DEPARTMENTS AND AGENCIES

(Department of State, Department of Labor, and Department of Commerce)

Improvements needed in management of U.S. participation in International Labor Organization

The General Accounting Office (GAO) reported in December 1970 that, although U.S. contributions to the International Labor Organization (ILO)--a specialized agency of the United Nations--had increased steadily, the Department of State could not give assurance they were being used efficiently and effectively or that U.S. interests were being served by the expenditure of the funds.

GAO found that the U.S. Government's policy objectives for participation in ILO were broadly defined and were not very susceptible of measurement. Generally they were to assist in the economic and social development of less developed countries and to present the advantages of our economic, social, and political system in contrast with other, nondemocratic systems.

Individuals interviewed and documents reviewed by GAO indicated that there had been a lack of U.S. initiative in implementing a firm policy aimed at attaining its political objectives and that the U.S. was not having any great success in achieving such objectives. The result, according to these sources, had been an almost unimpeded expansion of Soviet-bloc influence in ILO.

Related to the achievement of U.S. objectives is the fact that the executive branch has not been successful in its efforts to substantially increase the number of Americans employed by ILO--an obvious means of making U.S. influence felt in ILO.

Responsible U.S. officials did not have sufficient information on most of ILO's programs and activities and the manner in which they were being carried out to be assured that U.S. contributions to ILO were being used in an effective and efficient manner and to accomplish intended objectives.

GAO recommended that the Departments of State, Labor, and Commerce frame definitive and measurable U.S. objectives and develop and implement a firm policy and a workable plan for achieving such objectives, including steps to be taken to increase employment of Americans by ILO.

GAO recommended that the Department of State:

--Obtain more complete and informative budget and program proposals and require that thorough analyses of these data be made.

--Obtain adequate information on ILO's operations and make effective evaluations of its projects and programs.

The Department of State expressed general agreement with GAO's recommendations that more complete information be obtained from ILO and stated that

it would pursue the information aspect not only in its own contacts with the ILO but also in its encouragement of other like-minded governments to exert similar pressure on ILO for such information.

The Department saw the need for better evaluation of ILO activities and stated that it would continue to press within the U.N. system for establishment of evaluation bodies.

With respect to U.S. influence in ILO, the Departments of State and Labor defended their manner of participation and made statements indicating that the situation was much more satisfactory than it had been in the past. Events subsequently disclosed proved that such was not the case. These events, which included the appointment in June 1970 of a Russian as Assistant Director-General of ILO without consulting or notifying the United States, whose opposition to such an appointment was known, led to action by the Congress to deny funds for U.S. contributions to ILO.

The agencies' responses to the GAO findings indicated a disinclination by the agencies, particularly the Department of State which has primary responsibility in this area, to formulate the objectives and to take the actions required to meet and deal with the very difficult problems attending U.S. participation in ILO. (B-168767, Dec. 22, 1970.)